FINANCIAL TIMES

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WORLD NEWS

Holocaust survivors to launch class action against Swiss central bank

US lawyers will this week file a class action on behalf of holocaust survivors against Switzerland's central bank in a move that represents a significant escalation of the international campaign to extract compensation from Swiss banks for alleged failure to return stolen goods after the war. Page 16

China backs moves on Asian tests
China is joining forces with the four other established nuclear weapons states as part of an intensive diplomatic drive to get India and Pakistan to stop increasing or testing their atomic arsenals. Page 6

Kaunda treason charges dropped
Kenneth Kaunda, Zambia's former president, was freed after five months of house arrest when the state dropped treason charges against him. Page 7

Air France forced to cancel
Air France was forced to cancel all but a few of its scheduled flights as pilots went on strike over the state-owned company's proposals to cut its annual salary bill to improve competitiveness. Page 3

Indonesia to probe Suharto assets
President B.J. Habible said Indonesia would investigate the assets of former president Suharto and that Mr Suharto and his immediate family had agreed not to leave the country. Page 6

Warning to Milosevic
Montenegro's reformist Democratic Party of Socialists warned it would call a referendum on independence if Yugoslav president, Slobodan Milosevic, continued to fuel a constitutional crisis. Page 2

Yemen kidnapping pledge
Yemen's new government promised to take tough action to deal with the frequent kidnapping of foreigners, more than 100 of whom have been seized since 1992.

CSU raises Sudeten question
Germany's ruling coalition partner, the Christian Social Union, said Germany should link the Czech Republic's future entry into the European Union to a settlement of issues relating to Sudeten Germans expelled after the second world war. Page 2

González to bid for European role
Felipe González, the former Spanish prime minister, is preparing a bid to become the next president of the European Commission. Page 2

Korean unions may postpone strike
The Korea Confederation of Trade Unions suggested it would postpone a general strike scheduled for June 10. Page 6

Italy's Prodi blasts spending wave
Romano Prodi, Italy's prime minister, attacked the wave of public spending that was used to boost the southern Italian economy in the 1980s, saying it had "ruined the region". Page 3

Delay threat to free movement
A future Social Democrat government in Germany will seek a lengthy delay in granting free movement to workers from central and east European states once they join the European Union, a spokesman said. Page 4

UK to approve Channel rail link
John Prescott, the UK deputy prime minister, is expected to approve a rescue package for the £5.4bn ($9bn) high speed rail link between London and the Channel tunnel. Page 10

BUSINESS NEWS

UK insurance group to pay $1.15bn for ING's US property and casualty arm

Guardian Royal Exchange, the UK insurer, is buying ING's US property and casualty business for $1.15bn. The Dutch financial services group will acquire Guardian's Canadian arm for $375m. Page 17

Travelers Group's alliance with Nikko Securities won Japanese government approval yesterday as the US financial services group announced it would pay $1.6bn for 25 per cent of Japan's third largest broker. Page 17; Braced for invasion, Page 14; Deal maker shakes financial world, Page 20

PolyGram's film division sale has brought interest from dozens of US and European companies. The division will be sold if Seagram's $10.6bn bid for its parent company succeeds. Page 20

Merrill Lynch, US investment bank, is discussing the acquisition of east European and Russian brokerage businesses owned by Hong Kong-based financial services group Regent Pacific. Page 20

Nucor, the US mini-mill company, unveiled plans to build its ninth mill, which will lift its steelmaking capacity to 12m tons. Page 20

Indonesian banks: Audits of six nationalised banks indicate huge irregularities, according to reports, suggesting that the cost of the bank sector bail-out will be much higher than expected. Page 6

Hong Kong shares continued to plunge, with the Hang Seng index dropping 3.6 per cent and taking it more than 27 per cent below its March peak. Page 6; World stocks, Page 40

Pirelli, the Italian tyre and cables group, has settled its legal dispute with Ciena of the US for infringement of Pirelli's optical transmission systems patents. Ciena will pay Pirelli $30m and royalties on future sales. Page 20

Sony is to expand its digital home electronics business by taking a 6.7 per cent stake in JustSystem, Japan's top-selling word processing software. Page 19

UK manufacturers are experiencing their sharpest fall in orders since 1995 as sterling's strength hits export demand. Activity fell in May for the second month running, a survey shows. Page 10

Westinghouse's nuclear businesses are understood to have attracted three preliminary bids from groups headed by British Nuclear Fuels and French state-owned companies Framatome and Cogema. Page 17

Smiths Industries of the UK has won a contract thought to be worth about $20m from US low-cost carrier Southwest Airlines. Smiths will install flight management systems in the carrier's older Boeing 737s. Page 8

OTE, Greek public telecoms operator, reported net profits of Dr45.1bn ($148m) in its first quarterly reporting of results. Page 18

Intel shares dived after news that the chipmaker's next generation of microprocessors will be delayed until mid-2000. Page 20

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. Page 27

Monsanto and AHP agree $34bn merger deal

Broad-based 'life sciences' group will have sales of $23bn and employ 75,000

By Nikki Tait in Chicago and Will Lewis in New York

Two of the top science-based companies in the US yesterday announced a $34bn merger deal to create a broad-based "life sciences" group encompassing pharmaceuticals, agricultural products and food ingredients.

American Home Products, the East Coast-based drugs and pharmaceutical group, will, in effect, take over Monsanto, whose interests range from pharmaceuticals and food ingredients to biotechnology. The combined stock market valuation of the two companies is $66bn.

The yet to be named company, in which AHP will hold a 65 per cent stake, will have annual sales of $23bn, employ 75,000 people and put $3bn a year into research and development. Pharmaceuticals will be the largest element, accounting for about half the group's sales and two-thirds of the annual R&D budget.

Agricultural interests, mainly derived from Monsanto and ranging from genetic engineering to herbicides, will be the second element. Sales in this area will be about $6bn a year.

In New York lunchtime trading, Monsanto's shares were down $⅝ at $54⅝ and American Home Products' shares were up $⅞ at $49⅞.

John Stafford, AHP's chief executive, and Robert Shapiro, his counterpart at Monsanto, said the merger had been triggered by the need to ensure strong finance, research and marketing resources in the rapidly-consolidating life sciences industry.

Both companies have been in the merger frame recently. AHP, with annual sales of about $14bn, attempted to merge with SmithKline Beecham to create a more powerful pharmaceuticals business.

The deal broke up partly because of concern about two of AHP's anti-obesity drugs, which were withdrawn from the market after evidence that they caused heart valve defects.

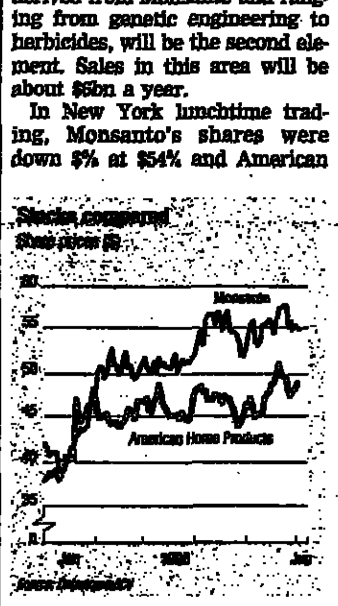
Monsanto's aggressive push into life sciences and a spate of multi-billion dollar acquisitions – large relative to its $7bn annual sale base – had led to speculation that it would need to seek a bigger partner.

AHP shareholders will retain their shares, while Monsanto shareholders will receive 1.15 shares in the new company for each existing Monsanto share, giving them about 35 per cent of the equity.

By contrast, the 22-member board will be divided equally between AHP and Monsanto representatives. Mr Shapiro and Mr Stafford – who recently underwent prostate surgery but said he was "in excellent health" yesterday – will be co-chairman and co-chief executives.

Unusually, the merger agreement carries a $700m break-up fee, payable if another buyer emerges for Monsanto. While such fees are fairly common, the size raised eyebrows among investment bankers.

Stocks compared
Share prices ($)



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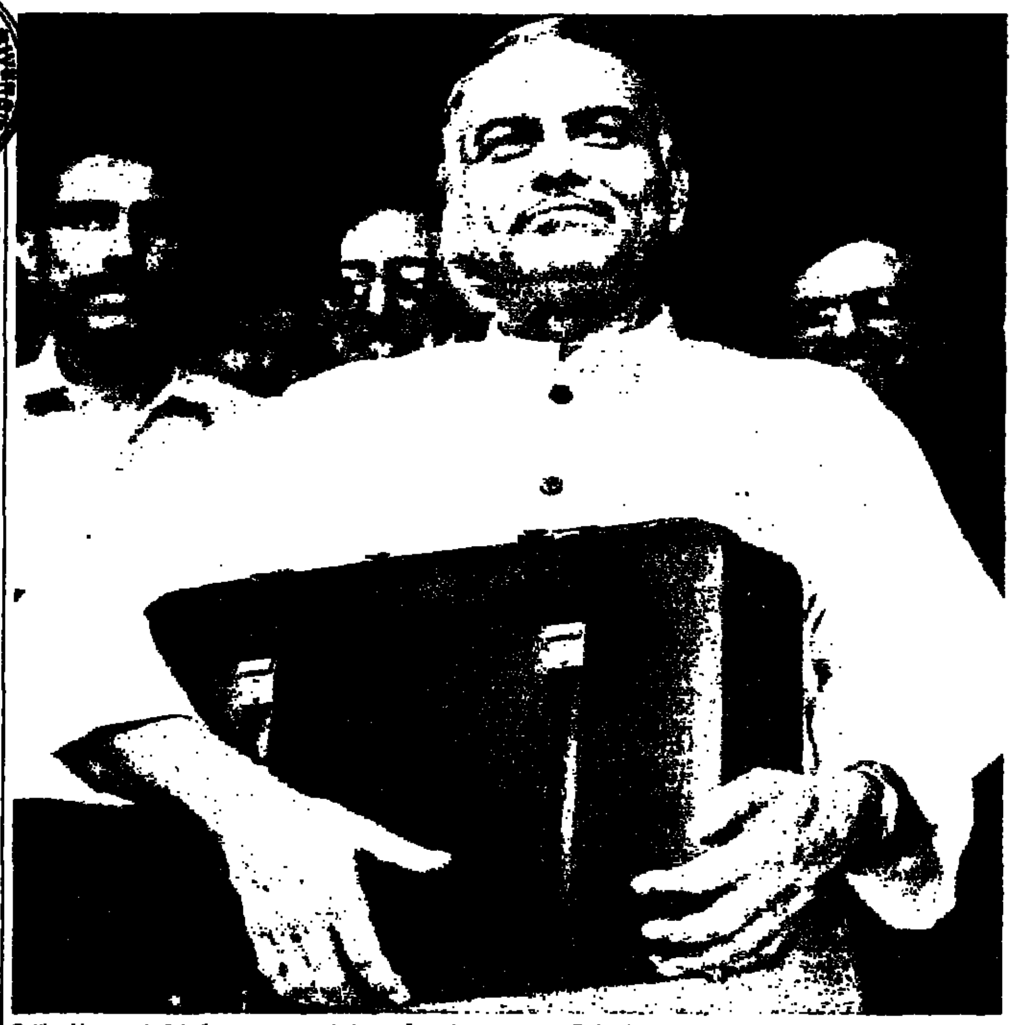

Putting his case: India's finance minister Yashwant Sinha leaves his New Delhi office with the papers detailing his tight-spending protectionist budget yesterday. But India's markets gave it a thumbs-down. Report, Page 16 Picture: Reuters

Pulp and paper groups to merge in $8.5bn deal

By William Lewis in New York and Tim Burt in Stockholm

Stora, the Swedish pulp and paper manufacturer, and Enso Oy, the Finnish forestry group, are expected to announce plans tomorrow to proceed with one of the largest European industrial mergers, creating the world's biggest pulp and paper group.

Enso officials yesterday confirmed that they were in talks, but declined to comment on the prospective merger. Stora was unavailable for comment.

The deal, which will create a group with a market capitalisation of more than $8.5bn, is likely to be structured as a merger of equals. The decision to merge is said to have been driven mainly by consolidation in the industry.

Several European producers have forged alliances in the emerging markets of south-east Asia and Latin America. A merger of Stora and Enso would mark the first large industrial combination between Finnish and Swedish groups, and the first cross-border pulp and paper merger in the region.

Officials close to the deal said Stora's willingness to merge with Enso was due in part to the introduction next year of the European single currency. Unlike Finland, Sweden has so far decided not to join. The merger would give Stora access to reduced euro transaction and invoicing costs.

The enlarged company would overtake International Paper of the US as the world's largest manufacturer of paper and board, with annual output of some 12,000 tonnes, against IP's 10,000 tonnes. It would also become the dominant producer of magazine grade paper, one of the highest margin sectors of the industry.

Last year, Stora reported pre-tax profits of SKr2.38bn ($361.4m) on sales of SKr44.5bn, while Enso announced pre-tax profits of FM2.39bn ($432.7m) on turnover of FM29.3bn.

The Finnish government, which holds almost 17 per cent of the voting rights in Enso, would receive more than 20 per cent of the votes in the enlarged group. Investor, the main investment vehicle of Sweden's Wallenberg business empire and the largest shareholder in Stora, would retain a stake of about 20 per cent of the combined company.

Lex, Page 16
Paper producers on a roll, Page 17

Russian stocks fall 10% over lack of support from IMF

By John Thornhill in Moscow

The Russian stock market slid a further 10 per cent yesterday as investors showed disappointment at the lack of support from the International Monetary Fund.

The government added to market instability when it failed to deliver on promises to announce a reworked scheme for privatising the Rosneft oil group.

Investor nerves were also frayed by the suspension of trade on Moscow's main stock futures market amid fears that some brokers could not settle orders.

Lawrence Summers, US deputy Treasury secretary, warned that Russia's financial turmoil could infect the global economy unless it was brought under control. "Russia's problem has the potential to become central Europe's and the world's," he told a conference in Vienna.

While expressing continued US support for the Russian reform effort, Mr Summers did not raise the possibility of direct bilateral assistance. He said it was now critical that the Russian government's new reform team stuck to its existing IMF programme and made good on recent commitments to bring its public finances under control.

Russian officials launched a concerted public relations campaign to win back investor confidence. Sergei Kiriyenko, prime minister, discussed Russia's financial plight with top foreign investment bankers in Moscow and later signed an order reducing government personnel by 30 per cent. He also hinted that President Boris Yeltsin might implement a critical new tax code by decree if its passage was further delayed in parliament.

At a conference of foreign investors in Moscow, Alexander Potyomkin, deputy head of the central bank, reaffirmed the bank's determination to defend the rouble, even at the cost of maintaining interest rates at 150 per cent.

The central bank said it had been rebuilding its depleted hard currency reserves in recent days, buying $400m of US dollars. This had boosted gold and hard currency reserves to more than $15bn, Mr Potyomkin said.

Mr Potyomkin added the bank was also examining ways to raise cheaper funds from abroad to restructure its cripplingly expensive domestic debts. These include either bilateral loans from G8 countries and raising money from private investors via eurobonds or commercial borrowings.

Clinton's 'life belt', Page 2

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8953.26	(+53.31)
NASDAQ Composite	1763.24	(-15.53)
Europe and Far East		
CAC40	(c)	
DAX	(c)	
FTSE 100	5837.9	(-32.8)
Nikkei	15,321.03	(-349.75)
US Lunchtime RATES		
Federal Funds	5.87%	
3-mth Treas Bills: Yld	5.017%	
Long Bond	104$\frac{5}{32}$	
Yield	5.776%	
OTHER RATES		
UK: 3-mo Interbank	7$\frac{1}{2}$%	(same)
UK: 10 yr Gilt	111.593	(111.234)
France: 10 yr OAT	(c)	(104.57)
Germany: 10 yr Bund	(c)	(108.16)
Japan: 10 yr JGB	112.33	(112.00)
NORTH SEA OIL (Argus)		
Brent Dated	$13.58	(13.815)

GOLD		
New York: Comex		
	$	(292.5)
London:		
	$288.75	(293.95)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6406	
DM	1.7792	
FFr	5.96685	
SFr	1.478	
Y	138.585	
London:		
£	1.6372	(1.6307)
DM	1.7803	(1.7828)
FFr	5.9694	(5.9828)
SFr	1.4777	(1.4788)
Y	138.63	(138.665)
Tokyo Close		Y 138.70
Sterling		
DM	2.9146	(2.9072)

Bahrain Din1.300	Belgium BFr80	Cyprus C£1.35
Denmark DKr21.00	[illegible]	Finland FM18.00
France FFr12.50	[illegible]	[illegible]
Hungary Ft300	Iceland [illegible]	Italy L3400
[illegible]	[illegible]	[illegible]

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WORLD NEWS

EUROPE

González eyes Commission presidency

By Lionel Barber in Brussels

Felipe González, the former Spanish prime minister who played an important part in rebuilding democracy and led Spain into the European Union 12 years ago, is preparing a bid to become the next president of the European Commission.

Mr González, 56, has raised his international profile sharply in recent months and is quietly mobilising support inside the European Socialist group, according to several people familiar with his plans.

His interest in the Commission presidency, one of the most powerful unelected posts in Europe, makes him a potential front-runner in the contest to succeed Jacques Santer next year.

Four years ago, Chancellor Helmut Kohl of Germany and other European leaders urged Mr González to accept the top Brussels job. But he preferred instead to stay in Spain and fight what ultimately proved a losing battle *in the 1996 general election.* Now he is said to have changed his mind. One important factor is that Mr González is no longer head of the Spanish Socialist party, which he dominated for more than 20 years.

The selection of José Borrell as Socialist candidate for prime minister rather than his own favourite, Joaquín Almunia, has underlined his loss of influence and increased his motivation for seeking a role outside Spain.

Mr González also supports a new initiative led by the former Commission president, Jacques Delors, which calls for the main political parties to nominate their preferred candidate for the *job ahead of the European* Parliament elections next June. Since the Socialists are the dominant political group in Europe and also hold power in a clear majority of the EU's 15 governments, Mr González appears to be in a strong position.

Traditionally, the appointment of the Commission president is settled through secret horse-trading among EU leaders. The plan is to decide the appointment at the EU summit in June 1999, to be chaired by Germany.

Mr González has refused to confirm or deny interest in the Commission presidency. However, other leaders, including António Guterres, prime minister of Portugal, *have called on him to run.*

Though his lack of English may count against him, he is making a growing impact on the international stage. He has penned articles on the future of Europe and accepted appointments such as special envoy for the Organisation for Security and Co-operation in Europe and the EU towards former Yugoslavia. "Felipe is in campaign mode," said an EU diplomat who has spent time in Mr González's company.

One shadow over a González candidacy is the trial of José Barrionuevo, a former ally, who is accused of setting up Spain's GAL anti-terrorist death squads. Mr González has always denied *knowledge of the death* squads. It is also unclear how the centre-right government of José María Aznar would react to a González candidacy.

Among other candidates said to be interested in the Commission presidency are Giuliano Amato, former prime minister of Italy, and Peter Sutherland, former EU commissioner and former head of the Gatt world trade organisation.


González: mobilising support

Russia reassured by Clinton's 'life belt'

Young capitalists and technocrats have no compunction in receiving a pledge of support from their country's former ideological rival, writes **Chrystia Freeland**

They may be young, but the thirty-something technocrats at the helm of the Russian government are old enough to remember the days when the US was the loathed ideological rival their country believed it would one day best.

So they are likely to have appreciated the historical resonance of the past few days, during which Uncle Sam promised to save Russian capitalism.

President Bill Clinton elicited *a deep sigh of relief* from jittery investors and embattled cabinet ministers by offering this assurance: "The United States endorses additional conditional financial support from the international financial institutions, as necessary, to promote stability, structural reforms and growth in Russia."

The White House tossed its life belt in the wake of one of the most turbulent weeks Russia's young capitalism has experienced. As investor confidence in the rouble ebbed away, the central bank was forced to triple interest rates to 150 per cent. Share prices dived by nearly 40 per cent, and the country's fragile financial system seemed at risk.

The turmoil was so severe that nervous bankers began to insist that only a western rescue package could prevent a wider financial collapse, a devaluation of the rouble and a fresh, and potentially politically incendiary, bout of very high inflation. Mr Clinton's weekend reassurances have persuaded investors that, at the very least, Russia can now count on an American safety net if its financial system goes into free-fall. "I think it [Clinton's pledge] will be very helpful for the market," said Jonathan Hoffman, head of emerging Europe economics at CSFB in London. "Clinton did absolutely the right thing. The US is saying to the market that the money will be there if it is needed."

Some analysts are hoping the US assurances alone will be enough to swing market sentiment. They argue that the turmoil in Russia has been much more a question of investor psychology than of economic fundamentals, meaning that the pledge may in itself be enough to reassure sceptics that the rouble will not tumble from its wide, dollar-linked band. "Russia does not deserve to catch the Asian flu," Mr Hoffman says.

"I think the very fact that market participants know that the package is there if needed may mean that it is not needed."

However, on the evidence of yesterday, Mr Clinton's promises may be insufficient to restore investor confidence in Russia. Last week's stockmarket slide continued, with equity prices falling by 10.2 per cent, and domestic government debt continued to command yields of more than 70 per cent.

One of the culprits was another, virulent round of the Asian economic crisis, including fresh worries about the soundness of the Japanese economy.

But Asian contagion is not the sole explanation for Russia's continued problems. Moscow is also battling against deep-seated investor scepticism, for which the government itself must bear much of the blame.

As the crisis struck last week, the cabinet wheeled out an array of economic artillery: a vow to cut Rbs40bn ($6.5bn) in expenditures; accelerated bankruptcy procedures; withdrawal of a proposal to lower the oil excise tax; and swifter privatisation.

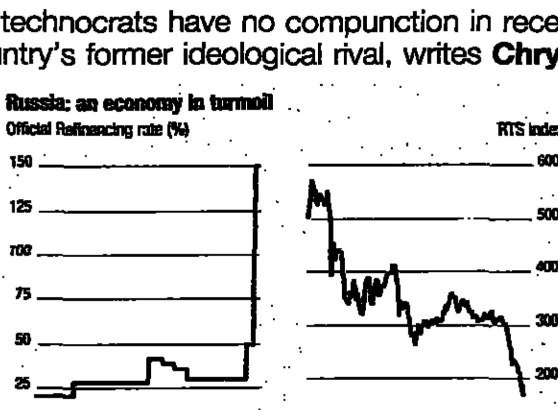
The government's programme was bold and severe, but it may not be enough. After months of unfulfilled promises, investors are looking at Russia's performance, not its proposals.

That creates difficulties for the cabinet, since Russia's weak public finances – the root of its woes – are not susceptible *to any quick* remedies. "The major problem is that the market wants to see results, not just statements," said Par Mellstrom, co-head of research at Brunswick Warburg, a Moscow based brokerage. "And the results will not be apparent this week or next week so you will only have a gradual return of investor confidence."

Investor expectations *could also increase the pressure* on the US, working with international financial institutions, to provide financial support. Over the past few days. Russia investors have convinced themselves an IMF or G7 bail-out is inevitable. That conviction might become *self-fulfilling* if buyers refuse to return to Russia without international support.

But the IMF has avoided immediate and firm offers of a rescue package. The Fund's reluctance may stem from the belief that the current crisis is the best goad to the Russian government to improve economic performance. For months, the Russian authorities have been promising to boost revenues and cut expenditures. The Fund may take the view that only the prospect of financial collapse will be enough to make the Kremlin act on these pledges.

If that is the case, then the financial turmoil may ultimately assist Russia's capitalist transformation. "You have galvanised the government and the central bank," Mr Mellstrom argues. "In the long run, it's very good this is happening, it has forced the government to deal with underlying problems."



Sudeten row opens cracks in coalition

By Ralph Atkins in Bonn

Chancellor Helmut Kohl's government found itself in fresh trouble yesterday after a foreign policy row broke out between two of the coalition parties, the conservative Christian Social Union (CSU) and centrist Free Democrats (FDP).

The Bavarian-based CSU said that Germany should link the Czech Republic's future entry into the European Union to a settlement of issues relating to the Sudeten Germans, ethnic Germans who were expelled from their homes in the Czech lands after the second world war.

But Klaus Kinkel, the German foreign minister and senior FDP politician, angrily dismissed the CSU demands as "not only unrealistic but irresponsible". He said bilateral issues from the past should not be coupled with EU entry negotiations.

Along with four other central and eastern European countries and Cyprus, the Czech Republic started formal entry talks with the EU in March and hopes to join early in the next century.

Mr Kinkel's comments followed a weekend rally in Nuremberg where 8,000 Sudeten Germans loudly applauded criticism of the foreign minister by Edmund Stoiber, the CSU prime minister of Bavaria.

Mr Stoiber demanded that EU negotiators should clarify whether post-war Czech laws on the expulsion and dispossession of Sudeten Germans could be accepted within the EU. At the same rally, Theo Waigel, German finance minister and CSU leader, called for a "gesture of goodwill" from the Czech government.

The CSU faces elections in Bavaria in September and is *hoping for strong support* from Sudeten Germans and their descendants in order to keep its dominant political position in the state.

The row follows angry exchanges earlier this year, when the CSU accused Mr Kinkel of not defending Germany's interests sufficiently in Brussels.

The CSU strongly opposes planned reforms of the EU's agricultural policy.

Its increasingly fractious relations with Mr Kinkel and the FDP are adding to the problems facing Mr Kohl as he seeks re-election in national elections on September 27.

About 2.5m ethnic Germans were expelled from the Sudetenland immediately after the war. Their property was confiscated and thousands were killed in the resettlement. In an attempt at rapprochement, Germany and the Czech Republic last year signed a declaration of mutual understanding in which Germany apologised for the Nazi invasion and occupation of Czechoslovakia and the Czech Republic expressed regret for crimes committed during the Sudeten expulsions.

NEWS DIGEST

LATEST DISPUTE WITH REGULATOR

Deutsche Telekom calls halt to new access deals

Deutsche Telekom, the German telecoms giant, has stopped signing agreements to allow new competitors access to its networks, pending resolution of its latest dispute with the country's telecoms regulator.

The row reflects confusion over which telecoms operators are entitled to Deutsche Telekom's preferential "interconnection" rates, which allow them to offer cut-price services to their customers. At 2.7 pfennig a minute, Germany's interconnection rates are among the lowest in the world. The low rate has helped trigger a proliferation of new competitors, with more than 50 companies offering telecoms services.

But Deutsche Telekom's block on new contracts came after suggestions from Klaus-Dieter Scheurle, the telecoms regulator, that some operators which have not invested heavily in their own networks could be classified as service "resellers" and pay a higher rate.

Operators that have already struck agreements with Deutsche Telekom could be affected if the company could argue that the terms on which original negotiations were conducted are no longer applicable. Deutsche Telekom is in talks with Mr Scheurle but the two sides might find it difficult to agree which companies have built sufficient infrastructure to be entitled to interconnection agreements. **Ralph Atkins, Bonn**

GREEK GAMES

Advice sought over Olympics

Athens 2004, the Greek state enterprise set up to organise the Olympic Games, is seeking an international adviser to arrange private sector financing for a group of construction projects, including an indoor sports complex and the Olympic competitors' village. The Socialist government wants to limit budget outlays for the 2004 Olympics and ensure facilities are completed on time. Athens 2004 says projects valued at $1.4bn-$1.8bn would be offered on a build-operate-transfer (BOT) basis to Greek and international contractors.

The Olympic village will be built on state-owned land outside Athens. It would be sold or rented as private housing after the Games, and a $275m indoor sports complex would become a conference centre. Private financing will also be sought for a traffic management system for Athens and for a $350m coastal development with berths for cruise ships, which would become floating hotels during the Olympics. **Kerin Hope, Athens**

SLOVAK BUDGET

Targets stay despite deficit rise

The Slovak finance ministry said yesterday the state budget was developing in line with full-year plans and there was no need to revise its main targets despite an acceleration in the fiscal deficit in May. The ministry said earlier that the fiscal deficit had risen to Sk2.406bn ($70m) from January to May, from a shortfall of Sk264m recorded in the first four months.

"The fiscal deficit at the end of May represents an appropriate portion of the full-year targets," said Juraj Macejka, director of the ministry's state account department.

The full-year fiscal deficit target was set at Sk5.0bn in 1998, with revenues of Sk179.8bn and expenditures of Sk184.8bn. **Reuters, Bratislava**

PORTUGUESE COUNCIL

Crackdown on child labour

Portugal's government yesterday announced the creation of a national council to crack down on child labour, estimated to involve about 50,000 children in the population of 10m. Describing child labour as "a worrying fact", the employment minister, Eduardo Ferro Rodrigues, said the council would include representatives from trade unions, employers, the government and civic institutions. Its chief task will be to monitor and recommend action. Government figures do not give overall estimates, but last year 167 cases of child labour were detected by the General Labour Inspectorate in a survey of 26,424 workers. **AP, Lisbon**

Montenegro re-elects reformers

Opponents of Milosevic threaten to hold a referendum on independence if the constitutional crisis is not resolved

By Guy Dinmore in Podgorica, Montenegro

Montenegro's reformist Democratic Party of Socialists yesterday celebrated its re-election in the parliamentary poll on Sunday and set the stage for the next political battle with Slobodan Milosevic, the president of federal Yugoslavia.

The DPS warned that Milo Djukanovic, president and DPS leader, would call a referendum on independence for Montenegro if Mr Milosevic continued to fuel Yugoslavia's constitutional crisis.

With 95 per cent of votes counted in the small Yugoslav republic, a DPS-dominated coalition headed by Mr Djukanovic had 49.5 per cent, against 36 per cent for the Socialist People's party of Momir Bulatovic, a close ally of Mr Milosevic. The pro-independence Liberal party took 6.2 per cent.

Mr Djukanovic's coalition may have a slim majority in parliament, or it could form a broader coalition with two parties of the ethnic Albanian minority.

Volleys of celebratory gunfire resounded across Podgorica, the capital, as supporters of Mr Djukanovic took to the streets in noisy, flag-waving cavalcades.

The Organisation for Security and Co-operation in Europe (OSCE), which sent 138 observers, pronounced the elections as "generally well conducted" and urged all parties to respect the result.

Mr Bulatovic conceded defeat but said the polls were neither free nor fair. Politika, the newspaper of Mr Milosevic's ruling Socialist party, denounced Mr Djukanovic as a "dictator".

Miodrag Vukovic, deputy prime minister, said the DPS would demand that Mr Milosevic dismiss Mr Bulatovic as the federal Yugoslav prime minister and replace him with a DPS-nominated candidate.

Mr Milosevic appointed Mr Bulatovic earlier this month in a pre-emptive move to secure control over the federal assembly that would pave the way for a centralisation of power in the Serbian capital Belgrade.

Mr Milosevic, Serbia's strong man for the past decade, has only three years left in office and under the federal constitution can serve just one term.

"If Milosevic continues like this there will be no more Yugoslavia," Mr Vukovic said, warning that a referendum could be held within months.

Montenegro has a population of just 650,000 and is dwarfed by Serbia but appoints half the 40 deputies to the upper house of the federal Yugoslav assembly, enough to prevent Mr Milosevic from changing the constitution.

Montenegro is also Serbia's only access to the sea and has a large naval base.

Recent opinion polls indicate *that Montenegro is* evenly divided over the issue of independence. But analysts say that demands for secession will grow if Mr Milosevic persists with his nationalist policies, which have brought economic ruin to both Serbia and Montenegro because of international sanctions.


Milo Djukanovic celebrates victory in the Montenegrin poll Reuters

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INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.5	1.9	3.75	7.00	2.95
1993	11.6	1.1	3.22	5.86	2.78
1994	6.2	1.4	4.67	7.08	2.86
1995	–0.2	2.1	5.93	6.57	2.61
1996	–3.2	4.9	5.41	6.43	2.15
1997	–3.3	4.9	5.59	6.34	1.73
2nd qtr.1997	–4.8	4.5	5.68	6.69	1.83
3rd qtr.1997	–3.2	4.9	5.55	6.24	1.64
4th qtr.1997	–1.2	5.6	5.63	5.90	1.60
1st qtr.1998	–0.1	6.3	5.47	5.60	1.51
June 1997	–4.5	4.4	5.65	6.48	1.73
July	–4.0	4.5	5.58	6.21	1.64
August	–2.6	5.1	5.56	6.32	1.64
September	–2.9	5.3	5.51	6.20	1.63
October	–1.8	5.5	5.55	6.02	1.60
November	–1.1	5.6	5.64	5.86	1.61
December	–0.6	5.6	5.71	5.80	1.58
January 1998	–0.7	5.9	5.47	5.54	1.59
February	–0.2	6.4	5.46	5.61	1.51
March	0.6	6.7	5.48	5.64	1.44
April	1.1	6.9	5.48	5.63	1.41
May			5.51	5.66	1.42

JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.82	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	–0.4	3.78	5.24	1.00
1993	3.0	1.4	2.95	4.18	0.87
1994	5.4	2.9	2.23	4.20	0.78
1995	8.2	3.2	1.22	3.39	0.86
1996	13.7	3.1	0.58	3.03	0.75
1997	8.8	3.9	0.59	2.19	0.87
2nd qtr.1997	8.7	2.8	0.56	2.42	0.83
3rd qtr.1997	8.1	2.9	0.61	2.16	0.82
4th qtr.1997	8.6	3.9	0.66	1.75	0.96
1st qtr.1998	9.5	4.5	0.94	1.71	0.97
June 1997	8.4	2.8	0.58	2.48	0.80
July	8.2	3.0	0.64	2.30	0.79
August	8.3	3.2	0.60	2.13	0.82
September	7.7	2.9	0.58	2.02	0.86
October	7.9	2.9	0.53	1.79	0.90
November	8.9	3.2	0.56	1.74	0.98
December	8.9	3.9	0.87	1.71	1.00
January 1998	9.7	4.5	0.95	1.74	1.00
February	10.3	5.0	1.04	1.76	0.95
March	8.6	4.5	0.84	1.62	0.96
April	8.3	3.5	0.71	1.62	0.98
May			0.62	1.37	0.99

GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	9.7	6.4	4.34	6.48	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.0	8.1	9.52	7.80	2.45
1993	9.4	7.8	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995	3.7	0.6	4.53	6.82	2.00
1996	10.5	7.5	3.31	6.21	1.81
1997	8.4	6.1	3.32	5.65	1.45
2nd qtr.1997	9.2	6.5	3.18	5.82	1.53
3rd qtr.1997	9.0	5.9	3.24	5.61	1.34
4th qtr.1997	5.5	4.7	3.68	5.48	1.42
1st qtr.1998	5.1	3.6	3.54	5.01	1.32
June 1997	9.1	6.4	3.14	5.75	1.46
July	9.7	6.2	3.14	5.56	1.33
August	9.0	6.0	3.26	5.66	1.32
September	8.2	5.5	3.31	5.60	1.38
October	6.5	5.1	3.58	5.58	1.37
November	6.2	4.6	3.74	5.56	1.48
December	3.7	4.5	3.73	5.32	1.40
January 1998	4.4	3.5	3.57	5.12	1.38
February	5.3	3.4	3.51	4.99	1.31
March	5.5	4.0	3.52	4.90	1.28
April	7.2	4.0	3.63	4.90	1.24
May			3.63	4.96	1.23

FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	3.9	8.2	7.94	9.08	3.69
1989	7.6	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.92	3.19
1991	–4.7	2.3	9.62	9.03	3.58
1992	–0.3	5.4	10.36	8.57	3.55
1993	1.1	–3.0	8.55	6.75	3.21
1994	2.5	1.7	5.84	7.21	2.99
1995	7.2	4.3	6.60	7.53	3.17
1996	0.6	–3.5	3.94	6.32	3.05
1997	6.4	1.6	3.46	5.56	2.58
2nd qtr.1997	2.7	–0.8	3.44	5.72	2.81
3rd qtr.1997	5.8	0.1	3.41	5.47	2.41
4th qtr.1997	6.5	1.6	3.65	5.49	2.48
1st qtr.1998	7.9	3.7	3.58	5.03	2.23
June 1997	2.7	–0.8	3.43	5.66	2.76
July	5.4	–0.4	3.39	5.42	2.39
August	5.9	–0.1	3.43	5.53	2.41
September	5.9	0.1	3.41	5.47	2.42
October	7.8	0.8	3.59	5.59	2.43
November	6.9	0.7	3.69	5.58	2.57
December	6.5	1.6	3.69	5.33	2.44
January 1998	7.7	2.8	3.62	5.13	2.38
February	10.7	4.1	3.57	5.01	2.23
March	7.9	3.7	3.57	4.94	2.09
April			3.63	4.95	2.04
May			3.61	5.02	1.98

ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	7.8	6.1	11.24	10.54	2.71
1989	7.2	5.5	12.42	11.61	2.46
1990	9.2	7.0	11.98	11.87	2.84
1991	7.3	5.9	11.83	13.20	3.45
1992	6.9	3.1	13.86	13.29	3.83
1993	4.7	2.8	10.22	11.23	2.35
1994	6.5	3.8	8.48	10.56	1.67
1995	0.4	–1.8	10.38	12.22	1.72
1996	1.0	–0.2	8.75	9.43	2.19
1997	8.8	9.2	6.83	6.83	1.91
2nd qtr.1997	8.8	9.6	6.92	7.39	2.18
3rd qtr.1997	10.0	11.3	5.79	6.52	1.79
4th qtr.1997	8.2	10.4	6.35	6.02	1.69
1st qtr.1998	8.9	9.0	5.89	5.36	1.33
June 1997	8.9	10.1	6.85	7.08	2.16
July	9.8	10.8	6.87	6.53	1.85
August	11.1	11.6	6.86	6.67	1.80
September	9.1	11.6	6.63	6.36	1.72
October	9.2	11.3	6.62	6.21	1.68
November	7.7	10.3	6.44	6.14	1.74
December	7.8	9.7	6.01	5.74	1.65
January 1998	7.9	9.1	6.03	5.50	1.47
February	8.5	8.8	6.09	5.38	1.34
March	10.4	9.0	5.56	5.21	1.19
April			5.18	5.16	1.13
May			5.07	5.22	1.26

UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	6.8	17.1	10.41	9.62	4.48
1989	5.9	17.4	13.96	10.11	4.36
1990	5.3	15.9	14.82	11.56	5.07
1991	2.4	7.9	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.9	3.5	5.99	7.40	4.01
1994	6.4	5.1	5.57	8.01	3.94
1995	5.9	7.3	6.77	8.18	4.15
1996	6.7	10.0	6.11	7.79	4.06
1997	6.3	11.1	6.94	7.02	3.59
2nd qtr.1997	6.2	11.2	6.60	7.29	3.74
3rd qtr.1997	5.6	11.7	7.21	6.95	3.49
4th qtr.1997	6.6	11.1	7.58	6.46	3.37
1st qtr.1998	6.9	10.3	7.55	6.02	3.05
June 1997	6.3	11.7	6.77	7.10	3.70
July	5.8	11.9	7.07	7.01	3.57
August	5.0	11.6	7.25	7.05	3.48
September	5.9	11.6	7.31	6.78	3.41
October	6.3	10.9	7.38	6.47	3.31
November	6.8	10.6	7.65	6.59	3.47
December	6.7	11.7	7.71	6.33	3.33
January 1998	6.9	10.7	7.57	6.08	3.24
February	7.1	10.4	7.53	6.02	3.02
March	6.6	9.7	7.57	5.96	2.89
April	6.7	10.3	7.51	5.80	2.82
May	6.3		7.48	5.84	2.84

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira; UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

صورة من الاصل

Air France aircraft in World Cup colours at Roissy airport outside Paris Reuters

PAY DISPUTE EMBARRASSING FLIGHTS DISRUPTION AS FRENCH GEAR FOR WORLD CUP

Pilot strike grounds Air France

By David Owen in Paris

Air France was forced to cancel all but a few of its scheduled flights yesterday as pilots went on strike over the state-owned company's proposals to cut its annual salary bill to improve competitiveness.

The airline said flight disruption was in line with its previous warnings that 90 per cent of long-haul flights and a slightly lower proportion of medium- and short-haul flights would be affected.

It acknowledged that the strike call had been "very widely followed". However, many of the 100,000 passengers that the company would normally have expected to carry were reported to have stayed away from airports, helping to limit confusion.

The SNPL, the main pilots' union, said 99 per cent of the company's 3,200 pilots had followed the strike. "Eight long-haul pilots flew today and two or four medium-haul," it added.

The stoppage's cost is estimated at about FFr100m ($16.7m) a day, or enough to wipe out the group's hard-earned 1997-98 net profits in little more than two weeks. It is happening at a particularly bad time for the company, since June is traditionally the best month for its domestic operations.

It is also embarrassing for France as the nation is gearing up to host this year's World Cup football tournament, which is due to kick off in eight days' time.

As Jean-Claude Gayssot, the Communist transport minister, appealed for a return to the negotiating table, the two sides sought to put the blame for the deadlock on each other.

Air France insisted the offer to negotiate was still open. But the SNPL, which represents about 60 per cent of Air France pilots, said it was still waiting for an invitation.

The government seems determined for the moment to take a back seat and refrain from intervening directly in the dispute.

However, with France set to be the focus of international attention for the 32 days of the World Cup, it would be surprising if ministers did not opt for a more forthright approach, should the deadlock last for more than a few days.

The nub of the dispute is the company's plan to cut its annual pilots' salary bill by FFr500m.

The pilots, who claim to have lost at least 30 per cent of their purchasing power over 15 years, resent being asked to make new sacrifices when the group has just announced a return to the black after several years of losses.

Prodi assails subsidies for south

By James Blitz in Rome

Romano Prodi, Italy's prime minister, made a powerful attack yesterday on the wave of public spending that was used to boost the southern Italian economy in the 1980s, saying bluntly that it had "ruined the region".

In a clear sign that his government is determined not to go back to the era of high subsidies for the south that dominated the last quarter of a century, Mr Prodi said the period of huge cash transfers from north to south was over and a more considered policy was needed to replace it.

Visiting Naples, where unemployed people have recently held demonstrations in support of a return to "socially useful" public works schemes, Mr Prodi said the age in which wads of state cash were used to prop up the south was over. "In my view, they ruined the region," he said.

Economists believe that, during the 1980s, as much as 73 per cent of the south's income was made up of public spending transfers pumped into the region by the Rome government.

However, the south's per capita gross domestic product remained stagnant throughout the period at about 58 per cent that of the north. This suggested that the cash was not boosting the regional economy at all.

Mr Prodi's government has now embarked on a policy of trying to boost the south by creating 40 small development areas that are granted fiscal subsidies and given special treatment by local councils over issues such as planning permission.

However, Italy's trade unions are concerned that the government is not making enough use of money it has set aside for infrastructure projects for the south.

ECB BEGINS WORK DECISION LOOMS ON MONETARY TARGETING, NOW MAKING A COMEBACK

Bank must define its target

By Wolfgang Münchau in Frankfurt

ECB watch

The six-member executive board of the new European Central Bank (ECB) will hold its first meeting today to launch the final round of preparations for economic and monetary union.

While the meeting will be concerned largely with housekeeping issues and the internal job share-out, one policy issue will loom large: the choice of monetary policy instrument.

No final decision will be taken today. This will be a matter for the ECB's full council – the executive board and the 11 national central bank governors – which will meet for the first time next Tuesday.

It is considered certain that the ECB will follow the Bundesbank in adopting an intermediate monetary target – probably M3, a measure of broad money.

During the 1980s and 1990s monetary targeting fell out of fashion among financial analysts and academics. Judging by recent comments from financial analysts, it could soon stage a comeback.

Thomas Mayer, European economist of Goldman Sachs, defends the use of monetary targeting at the ECB. "In our view, there are clear advantages in monetary targeting – a better chance for avoiding the build-up of an inflation potential or asset price inflation – that outweigh the technical problems associated with this strategy," he said.

He said monetary targets should be "a key guide-post in the ECB's monetary policy strategy".

The inclusion of asset price inflation is crucial. The causal link between increases in monetary aggregates and consumer price inflation has not always been stable, especially in countries with highly deregulated financial markets, such the US.

Which M3 target range will the ECB pursue?

Analysts have calculated that the ECB will opt for a tighter range of monetary growth than the Bundesbank.

Joachim Fels, ECB-watcher at Morgan Stanley, calculated that M3 growth of 4 per cent would be consistent with price stability in the euro-zone. German M3 growth currently runs at almost 5 per cent.

The reason behind the discrepancy is the so-called velocity of money – the speed with which money circulates in the economy – which is higher in the euro-zone than in Germany alone. Germans are more conservative savers.

Mr Fels calculates that an M3 growth rate for the euro-zone of 4 per cent is consistent with real economic growth of about 2.5 per cent and inflation of about 1.5 per cent.

Big boys in US lick their lips

The multinationals see themselves as winners

Living with the euro

By Richard Waters, Richard Tomkins and Nikki Tait

The imminent arrival of the euro has stirred a sense of expectation in US boardrooms – and a belief that the country's multinationals could be big winners as Europe's economies and product markets converge.

But there is also caution about the costs and complications the euro may represent.

It seems the single currency is attracting as much interest in corporate America as the build-up to the single market programme in 1992. "At the end of the day, it will make Europe a more competitive market," says George Fisher, chairman of Eastman Kodak.

It is an increasingly widely held view. Having been brought up in their own large market at home, many American executives believe they will benefit from operational and financial advantages as this more competitive market takes shape. That will become increasingly apparent if pricing becomes fiercer – a development that many believe is inevitable. The euro is "going to bring increasing transparency in pricing across the continent," says John Pepper, chairman of Procter & Gamble.

But any price reductions triggered by the increase in transparency could be offset in part by lower distribution costs and greater operating efficiencies of the single market.

The pace at which pricing becomes more competitive is likely to vary between different products, says Rob Friel, treasurer of Allied Signal. As an example, he points to Siemens' declared intention to adopt the euro at an early stage – something that could have a quick impact in the car parts business by forcing competitors to move to the euro at the same time.

US companies are hoping that economies of scale and operating efficiencies will counter any increase in competition. "Simplification and standardisation are having a profound effect on our company," says Mr Pepper. "We still have miles to go in realising the potential, but the euro will accelerate it."

In particular, he adds, that may mean more impetus behind the development of what P&G calls "Eurobrands" – standardised products to be packaged and sold in broadly the same way across the continent.

The single currency has aroused hopes that Europe will become an easier, more "American" market in which to operate – the same sort of anticipation that was prevalent in the US in the run-up to the 1992 single market.

But those expectations were only partly met, says Mr Friel, who was among the many US executives sent to Europe before 1992 to help reorganise corporate activities into less fragmented operations. Although the single market programme resulted in single national corporate entities in the main European countries, some of the potential efficiencies of operating across the continent never materialised, he says. "We were hoping for a single tax structure – it never happened."

Lodewijk de Vink, president of Warner Lambert, thinks US companies may have been "too optimistic" in thinking that the single market programme would lead to one market at once.

But he adds that the programme brought real enough benefits. "It has certainly brought us efficiencies that have led to lower costs."

While the potential benefits from operating with a single currency attract the most attention in corporate America, there are also rumblings about the significant systems cost of adapting to a transition period during which the euro will exist in parallel to national currency currencies. Many information technology departments have already been stretched by the demands of solving the problems of the so-called Millennium Bomb.

Unresolved technical issues also continue to stir concerns. One is the potential gains or losses that could be realised for tax purposes when national currencies are eventually replaced by the euro. "It's important that both sides of the Atlantic view it as a tax-neutral event," says Mr de Vink.

GERMANY SOCIAL DEMOCRATS WOULD SEEK 'LENGTHY DELAY' TO FREE MOVEMENT OF WORKERS FROM EAST

SPD warns on EU enlargement

By Quentin Peel and Frederick Stüdemann

A future Social Democrat government in Germany will seek a lengthy delay in granting free movement to workers from central and east European states once they join the European Union, according to the party's chief European spokesman.

The process of European Union enlargement should not be too hasty, to prevent problems both for new and old member states, according to Heidemarie Wieczorek-Zeul, a deputy chairman of the SPD.

A new German government should present a report to Brussels spelling out all the specific problems and interests for countries – such as Germany – which share borders with the new member states, she said in an interview with the Financial Times.

The free movement of labour, which would be guaranteed under EU membership for countries such as Poland, Hungary and the Czech republic, is perhaps the most sensitive issue for the border countries. Another concerns the ability of the new member states to control the movement of people from their neighbours to the east, such as Romania and parts of the former Soviet Union.

Ms Wieczorek-Zeul sharply criticised Helmut Kohl, the German chancellor, for telling the Poles that they could expect to be members of the EU by 2000. "That was not responsible," she said. "I believe [enlargement of the EU] is a historic necessity, but it has to be prepared on both sides, and done in a very careful and very thorough process."

She agreed that a long delay in enforcing the regulations for free labour movement would be essential for any future German government to negotiate.

"That was always clear," she said, "but it needs to be made even clearer... The German government has made a mistake in not submitting a memorandum to the European Commission and partner countries saying what are the specific interests of those countries at the border of the new member states."

Ms Wieczorek-Zeul said that a future SPD government would support radical reforms of the EU Common Agricultural Policy, as part of the process of controlling the budget costs of Brussels.

She attacked Theo Waigel, the German finance minister, for seeking to reduce Germany's budget contributions without backing farm reforms proposed in Agenda 2000, the European Commission plan for financing the EU for the next decade.

"Reducing the subsidies for agricultural prices... would result in a better net return for Germany," she said. "The position Germany ought to take on Agenda 2000 would be much closer to the position of the British government."

She said that Germany's campaign to curb its EU contributions could delay approval of Agenda 2000, which was essential to clear the way for the enlargement negotiations, formally launched in March.

She accused the German government of a cynical campaign to delay decisions on future financing, which will have to be finalised during the German presidency of the EU in 1999 – after the German elections in September.

"The Theo Waigel approach has more to do with the Bavarian elections [where the farm lobby is particularly powerful] than anything else," she said.

EU sets out to refine its social partnership

Employers and unions have come up with some real improvements for workers, but some politicians worry that member states have given away too much authority. **Michael Smith** reports

The language is as jargon-laden as anything in the European Union. Management and unions are deemed to be "social partners" who do not simply talk but engage in "social dialogue".

But behind the convoluted phrases there are some real achievements. Millions of EU citizens are benefiting from improved rights for part-time work and parental leave as a result of agreements negotiated between Unice and CEEP, representing employers, and Etuc, the trades union organisation.

The European Commission, the EU's executive, thinks it is not enough. When Unice refused its invitation to negotiate a pact with the unions on worker consultation, Jacques Santer, Commission president, called a mini-summit for today to allow the social partners to discuss their relationship.

Social dialogue owes its growing prominence in recent years to a "protocol" in the Maastricht Treaty on closer European integration.

All EU countries except the UK signed the measure, which commits states to promoting employment, working conditions and social protection, and to encouraging dialogue between management and labour.

The protocol, which the UK is now adopting, set out a mechanism whereby management and labour representatives could negotiate work-related deals. They could then ask the countries collectively to endorse the agreements, sometimes through legislation.

Some politicians feel the member states have given away too much authority. Individual countries have no powers to amend legislation proposed by the social partners – they must either accept it in full or reject it.

The heads of government summit in Amsterdam last year presented an opportunity for serious reform which the participants did not take up.

The meeting today, then, is about refining rather than overhauling the social dialogue. Padraig Flynn, EU employment commissioner, believes Unice, CEEP and the Etuc have failed to make the most of the policy initiation powers given to them by the Maastricht treaty. He is expected to tell the bodies they must be more pro-active.

The three organisations have, at the suggestion of the Commission, concluded deals on part time work and parental leave. They have recently started talks on fixed term contracts for employees.

However, they have either collectively or individually turned down Commission suggestions for deals on issues related to sexual harassment and sexual discrimination and on information and consultation.

Mr Flynn wants Unice, CEEP and Etuc to bring forward ideas for agreements themselves rather than wait for Commission suggestions.

Padraig Flynn is expected to tell the bodies they must be more pro-active

Emilio Gabaglio, Etuc secretary general, said trade unions had taken an active role in the employment debate and were pressing Unice to discuss issues including access to training and work organisation. He said he would be pressing Unice to "play its full role" in the social dialogue, as its policy appeared to be to pick and choose.

Dirk Hudig, Unice secretary general, agrees employment should be a social dialogue priority and "that is why we chose to negotiate on part-time work".

But consulting workers is not comparable, he says.

The commission wants guidelines covering the relationship between companies and workers during periods of upheaval or restructuring. It will bring forward its own proposals after Unice rejected talks.

The employers are gambling on the strong possibility that EU governments will reject the Commission's proposals. The UK is opposed and Germany is sceptical.

Mr Hudig says the Commission's description of what it wants – "information and consultation at the national level" – is revealing. "National level" suggests any proposals will apply to companies even if they operate only in one country. Mr Hudig says: "If it is at the national level why should the EU have competence in this area?"

The Commission should show more self-restraint, he argues. "The social dialogue tradition in Europe is to give government a limited role. But at European level this is not the case because they Commission is a dynamic actor which takes sides.

"You cannot have effective dialogue if you are under constant stress of having your arm twisted. We need to consider the rules to ensure two are not ganging up against one."

Nuclear lobby called for Superphénix nuclear reactor (above) to be shut down Ashley Ashwood

French keep reactor open for 'experiments'

By David Owen in Paris

At a little after 10pm on Saturday May 23, the eye-catching blue, green and yellow turbo-generator at the Phénix nuclear reactor at Marcoule, southern France, roared into life and began producing electricity for the first time in more than three years.

The timing of the start-up of this, the smaller and older of France's two fast reactors, will have struck many observers of the country's extensive nuclear power-generating industry as richly ironic. Less than four months earlier, on February 2, the Socialist-led government of the prime minister, Lionel Jospin, had confirmed that the larger Superphénix, at 1,200MW the biggest fast reactor ever built, was to be shut down for good.

This step, in keeping with a Socialist manifesto commitment, was seen as a blow for France's powerful nuclear lobby.

The official justification for these apparently contradictory moves is that a tool is needed to conduct experiments that will help France decide by 2006, in line with a 1991 law, how best to dispose of the waste from its extensive network of nuclear reactors. These generate about three-quarters of France's electricity.

Some of these experiments can be conducted only in a fast reactor. With the government committed to closing Superphénix, which is on the banks of the Rhône river 200km to the north of its smaller cousin, it follows that the reopening of the 250MW Phénix was necessary. Nevertheless, the decisions put cabinet unity under strain. Dominique Voynet, the Green environment minister, said she would have preferred Phénix not to be restarted. By contrast, Robert Hue, the Communist leader, said his party was against the closure of Superphénix.

Phénix will thus spend the remainder of its more than 30-year working life, until 2004, engaged on work designed to assess the suitability of fast reactors for burning plutonium, rather than "breeding" it, their original mission.

The experiments will also aim to determine how effectively fast reactors might be used for incinerating another potentially troublesome by-product of the nuclear industry, the so-called higher actinides – elements such as neptunium, curium and americium that are heavier than actinium.

As officials at the 300-hectare Marcoule nuclear complex point out, Phénix is a more flexible tool for conducting such experiments than Superphénix.

They are also confident the more advanced age of the plant will not pose problems. It dates from 1973, whereas Superphénix did not reach full power until 1986.

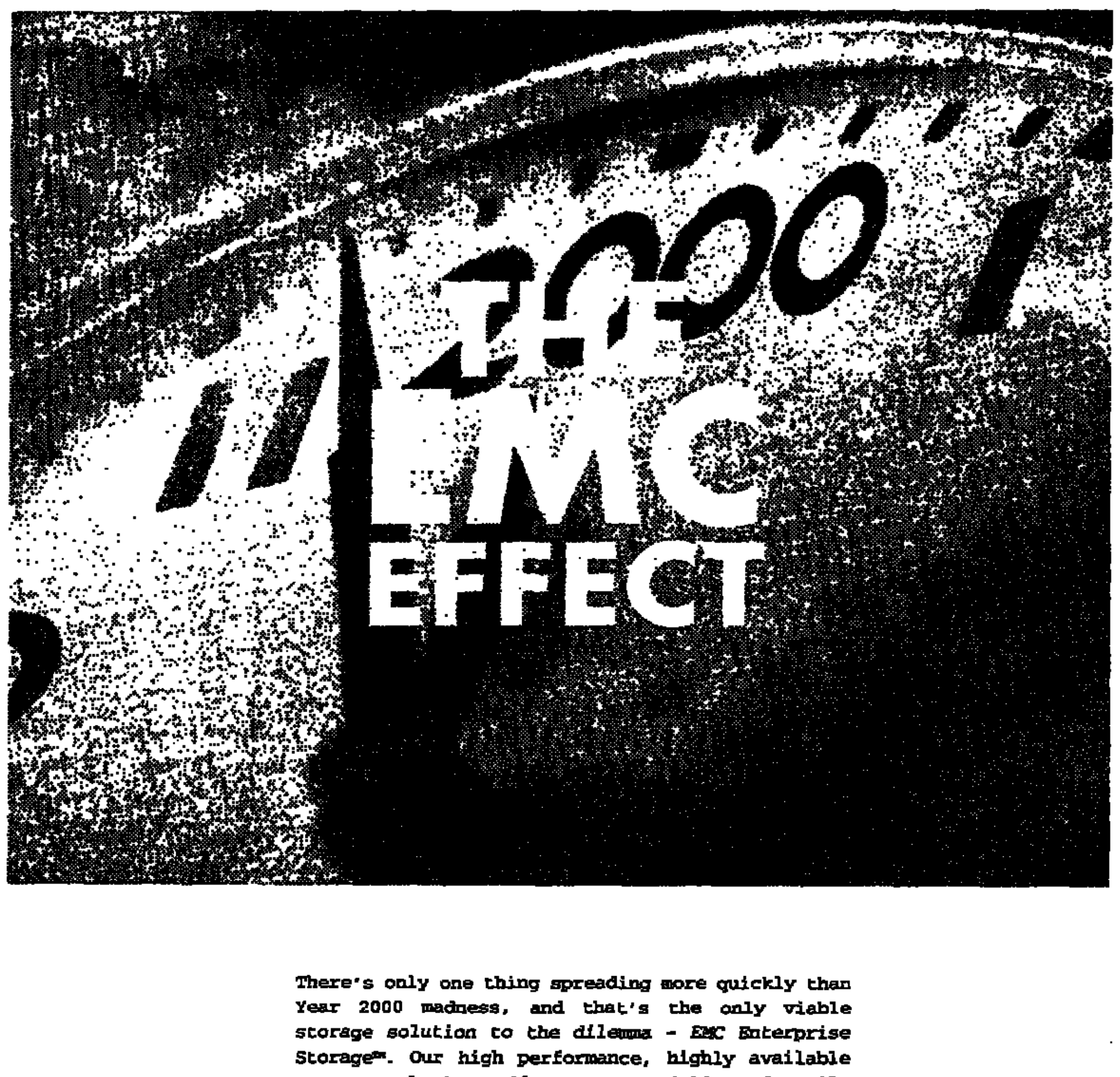
However, they acknowledge there is no guarantee that the reactor will not again be affected by the sort of sudden reduction in the core's reactivity which happened on four occasions between 1989 and 1990.

Though they still cannot prove what caused the change, they say extensive studies have convinced the French nuclear safety authorities it has no serious consequences.

For the moment, the reactor – in its 50th cycle – continues to operate as a fast-breeder reactor, producing more plutonium than it burns in its fuel, which has between 18 and 23 per cent plutonium content.

This should no longer be the case in the 51st cycle, which is expected to start, after the plant has undergone a thorough overhaul, at about the end of next year.

The plant employs about 250 people and shares the Marcoule site near the Châteauneuf-du-Pape wine country with other nuclear installations, including the now disused G1 graphite reactor, which in 1956 generated the first French nuclear kilowatt-hours.



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PRESIDENTIAL ELECTION RUN-OFF LIBERAL PARTY CANDIDATE HORACIO SERPA WILL FACE CONSERVATIVE PARTY CANDIDATE ANDRES PASTRANA ON JUNE 21

Serpa jubilant after surprise Colombia win

By Adam Thomson in Bogotá

Andres Pastrana (left) makes the run-off; Horacio Serpa (centre) records wafer-thin win; Noemi Sanin takes surprise 27 per cent of vote to become new political force AP

Among accordion players and improvised street singing, the populist Liberal party candidate, Horacio Serpa, emerged jubilant in the first round of Colombia's presidential elections with a wafer-thin victory.

Mr Serpa, whose main platform is based on forging a peace agreement with the country's 15,000 leftwing guerrillas, won by a mere 25,000 votes from a total of 10.8m. His slim victory – with 98 per cent of the vote now counted – over the second place candidate, Andres Pastrana of the Conservative party, came as a surprise. Ten days before Sunday's elections, opinion polls had virtually written him off, placing him 17 points behind Mr Pastrana.

The two men will now proceed to a second, decisive round of elections for the presidency on June 21. But for many observers, Sunday's real victor was an independent candidate, Noemi Sanin. Running on an independent ticket which offered voters a change from the country's claustrophobic two-party political system, Ms Sanin won about 27 per cent of the vote, just eight points behind the two leaders. In Bogotá, the nation's capital, she won by a landslide, gaining more than 40 per cent.

"Sanin's success shows that there is a very important percentage of the population, especially in urban areas, which is sick of traditional parties," said Andres Franco, political analyst at Bogotá's Javeriana University.

Her new-found support makes her a serious political force and potentially the most important element in deciding who becomes the nation's next president on June 21. But Ms Sanin has so far refused to endorse either of the traditional party representatives, instead announcing the beginning of a new, independent political movement.

"Far be it from me to tell the millions of Colombians who voted for me who to vote for in the second round," she said on Sunday night.

Her stance leaves the second round wide open, with many believing Mr Serpa has a huge fight on his hands.

"Serpa's victory is bad for a Liberal party which is used to obtaining close to 45 per cent of the vote in presidential elections," said Juan Gabriel Tokatlian, investigator at the Institute of Political Studies and International Relations of Bogota's National University.

Throughout the build-up to the elections, Mr Serpa's weak point has been his close association with the present government of President Ernesto Samper. As a former interior minister, Mr Serpa is considered to represent a continuation of the policies of the present government, which has left the country considerably worse off than when it took office four years ago.

A series of corruption scandals, including the alleged entry of $6m into President Samper's electoral campaign, have created uncertainty in the local business environment. Mr Pastrana is considered the business community's preferred candidate for his orthodox monetary policies and support of greater foreign investment.

Unemployment is now 14.5 per cent of the workforce compared with 8 per cent four years ago. Growth of gross domestic product has slumped from an historical average of 4.5 per cent to 2.1 per cent in 1996 and 3 per cent last year.

For the second-placed Mr Pastrana, the fact that two out of three Colombians who went to the polls voted against the Liberal party candidate represents a resounding victory for his campaign.

"Together, the vote for change represents 65 per cent of Colombian voters," he said as the results came out. "Continuism cannot impose itself on the will of the people."

But experts say he is not guaranteed the support of Ms Sanin's voters. For much of the electorate, Mr Pastrana, a former newscaster, continues to represent the interests of the traditional Conservative party more than those of a new, more pluralistic, approach.

"Mr Pastrana is the son of a former Conservative party president and that has not allowed him to fully convince voters of his desire to change traditional party politics," said Mr Franco.

A high turnout is not guaranteed for the second round. Contrary to expectations, Sunday's elections mustered only 51 per cent of the potential voting population. With three World Cup football matches scheduled for June 21, it is possible that many will decide to stay at home.

Canada economy grows strongly

By Scott Morrison in Toronto

The Canadian economy grew more strongly than expected in the first quarter and consumer prices were little changed, lending support to a Bank of Canada report suggesting monetary conditions need not be revised in the short term.

Statistics Canada, the federal agency, said yesterday that real gross domestic product rose 0.9 per cent in the first quarter, an annualised 3.7 per cent. This was helped by an advance in personal incomes, which were up 1.6 per cent, the largest quarterly increase since before the recession of the early 1990s.

Economists predicted that the pace of growth would moderate in the second half of the year as the rate of growth in incomes declined. Observers noted that first-quarter income growth reflected the effect of two significant strikes in the last quarter of 1997.

The consensus has been that Canada's GDP would expand by 3.2 per cent this year, but the first-quarter results could prompt economists to revise 1998 growth estimates to as much as 3.5 per cent.

A recent Bank of Canada report concluded that current monetary conditions were broadly appropriate for the next six months in the absence of further shocks. Since increasing its key bank rate to 5 per cent in January, the central bank has resisted calls for a further interest rate rise to prop up the Canadian dollar which was at 68.7 US cents in midday trading.

"The numbers aren't going to change the Bank of Canada's policy, particularly given the inflation numbers," said one economist.

Corporate profits declined 6.6 per cent in the quarter, mainly because of a drop in crude oil and natural gas prices as well as the impact of January's ice storm on insurers.

Mahuad takes high ground but Noboa holds the coast in Ecuador election

Quito mayor heads businessman rival after first round, writes **Justine Newsome**

Jamil Mahuad will start the second round of Ecuador's presidential elections with a comfortable lead over his opponent, Alvaro Noboa, a businessman from the port of Guayaquil.

Preliminary results from the first round on Sunday showed Mr Mahuad, the 49-year old candidate of the centre-right Popular Democracy party, beating five others to win 35 per cent of the vote, eight points ahead of 47-year old Mr Noboa, who is backed by a coalition of populist parties.

Rivalry between Ecuador's highland and coastal regions is traditionally strong but Mr Mahuad, mayor of the highland city of Quito, received substantial nationwide backing. At least a third of the electorate voted for him in many coastal provinces.

In contrast, Mr Noboa performed very strongly on the coast but was backed by less than 10 per cent of the electorate in many highland provinces. "Jamil will have to look after the votes he has been lent from the coast," said Blasco Penaherrera, director of the Market polling company, who also predicted a " violent, hard and costly campaign".

Both men are hoping for backing from the other presidential candidates who did not get past the first round. Two centre-left candidates, Rodrigo Borja and Freddy Ehlers, who together won 21 per cent of the vote and were strongest in the highlands, said they would consult their parties, the Democratic Left (ID) and New Country movement, before deciding. Jaime Nebot, leader of Ecuador's largest party, the Social Christian party (PSC), which is strongest on the coast, has endorsed Mr Mahuad although his party will not meet to decide its position until tomorrow.

The campaign has become more aggressive, with armed attacks on the offices of a political consultancy advising Mr Mahuad and last week an accusation by Mr Noboa that his opponent's brother and campaign treasurer had links with drug traffickers.

"We won in a clean campaign of proposals without insults and attacks on other candidates. This is the strategy which must win the second round," said Mr Mahuad. The more aggressive style of the Noboa campaign is an uncomfortable reminder to some Ecuadoreans of former president Abdalá Bucaram, removed by Congress after mass protests in February 1997.

Mr Noboa presents himself as an independent candidate backed by a coalition of parties, not only Mr Bucaram's Ecuadorean Roldosist party (PRE). But while the PRE brings Mr Noboa considerable votes on the coast, opposition to Mr Bucaram will continue to undercut Mr Noboa's support, especially in the highlands.

Mr Mahuad's campaign points out his experience as a former labour minister, a postgraduate degree in public administration and two terms as mayor of Quito, while Mr Noboa emphasises his success in business. Both are eager to bring in private investment to modernise key sectors such as oil, electricity, telecommunications and road-building.

Mr Mahuad's manifesto places its emphasis on education, health and employment to combat poverty. It focuses on reconstruction of

'We won in a clean campaign of proposals without insults'

the coast, which has been devastated by the El Niño weather pattern, and also includes anti-corruption and public-safety measures. "Jamil has the A-team economically," said one New York investment banker on a recent visit to Quito.

Despite Mr Noboa's pro-business stance, some uncertainty remains about his policy intentions. "There is no government plan or economic plan," according to a former central-bank head, Fidel Jaramillo.

Preliminary results from congressional elections indicated that the PSC had won at least five of 20 national deputy seats, followed by the DP and PRE with four seats each. As the congressman with the highest vote, Mr Nebot will become president of Congress.

The counting of votes for 101 provincial congressmen is still under way, but opinion polls predicted that the PSC and DP would be the largest blocks. If these two link up in Congress they could give Mr Mahuad a pro-reform, overall majority, if he wins the second round of presidential elections.

NEWS DIGEST

DERIVATIVES ACCOUNTING

Standards board rule risks irking Congress

The US's Financial Accounting Standards Board (FASB) yesterday formally adopted its long-awaited rule on accounting for derivatives, potentially putting it on a collision course with Congress.

The question of how to reflect the value of derivative instruments in a company's accounts has proved the most vexing issue faced by the standard-setting body in recent years, and has provided ammunition for opponents in Washington who believe that accounting rules should not be left in the hands of a private body backed by the accountancy profession.

Under the new FASB rule, which would take effect at the beginning of 2000, companies which enter derivatives contracts would have to show the market value of the instruments on their balance sheets. If the derivative was being used to protect against a change in the value of any of the company's assets or liabilities, then those would also be shown at market value.

Critics say this rule will distort a company's financial statements, since the value of many underlying assets and liabilities cannot be assessed easily. **Richard Waters, New York**

EXECUTIVE PRIVILEGE

White House will not appeal

The White House yesterday decided to withdraw its decision to appeal against a court ruling that President Bill Clinton cannot exert executive privilege to protect aides from testifying on the Monica Lewinsky affair.

The dispute over the privilege – a controversial presidential prerogative normally invoked on issues of national security – has been simmering for months. Mr Clinton had used it to try to prevent two senior advisers from having to answer questions before a grand jury. However, a federal judge ruled last week that it did not apply in this case.

The White House initially said it would appeal but has now accepted the ruling. That clears the way for testimony by Sidney Blumenthal, one of the aides whom Kenneth Starr – the independent counsel leading the investigation into whether Mr Clinton had an affair with Ms Lewinsky and sought to cover it up – is seeking to question.

However, Mr Clinton is still expected to argue that his conversations with Bruce Lindsey, a lawyer who is his closest personal adviser, are protected by attorney-client privilege anyway. **Mark Suzman, Washington**

LOBBY GROUP

Disclosure demand ruling

The US Supreme Court ruled yesterday that a controversial lawsuit brought against the government to force it to require an influential pro-Israel lobby group to detail its political contributions was legitimate but said it was up to the relevant federal agency to decide on its merits.

The American Israel Public Affairs Committee (AIPAC) has long argued that it is not subject to federal requirements on funding disclosure because it is not technically a political committee.

The Federal Election Commission, the agency charged with overseeing political spending, had agreed with that interpretation, prompting a lawsuit by AIPAC's opponents.

The Supreme Court agreed that the lawsuit was legitimate, but said that "unusual and complex" factors meant that the FEC first needed to make a separate ruling on whether the group's spending was political as defined by law or could qualify as "membership communications". **Mark Suzman**

Concern grows over US exports

By Gerard Baker in Washington

Two reports yesterday highlighted the tension in the US economy between strong domestic momentum and the spreading weakness in overseas markets.

The pace of growth in US manufacturing eased in May for the second consecutive month, according to the National Association of Purchasing Management, as the effects of the Asian crisis hit exporters harder. But construction spending rose for the fifth straight month in April as domestic conditions remained highly favourable.

The NAPM said its monthly index of business activity, based on a survey of corporate purchasing executives, fell to 51.4 in May from 52.9 in April. The reading still indicates solid growth in overall manufacturing activity, but the pace has now slowed significantly since the winter.

"Exports failed to grow in May, while imports grew, but at a slower rate than recorded in April," said Norbert Ore, the chair of NAPM's manufacturing business survey committee. "There is continuing concern about the impact of the Asian economic situation on exports and imports."

The most important figure in the report – the new orders index – dropped sharply, to 52.1 in May from 56.8 in April, with no new orders export growth for the fifth consecutive month.

Meanwhile, the Commerce Department reported another sharp rise in construction spending in April, driven by the largest increase in commercial projects since last summer.

The 0.8 per cent increase, to a seasonally adjusted annual rate of $630.1bn, followed gains of 0.1 per cent in March and 0.8 in February.

Economists had attributed much of the strength of the construction sector at the start of 1998 to the unusually warm weather in much of the country. However, the April figures suggested that unusually rapid growth was continuing into the second quarter.

Mexico takes control of airline

By Henry Tricks in Mexico City

Mexico's government yesterday seized management control of one of the nation's top two airlines, Aeromexico, to stop a nationwide strike launched by flight attendants from disrupting service.

The government's decision to requisition the airline forced Aeromexico's 1,033 flight attendants grudgingly back to work, though they said their strike continued symbolically.

"We're on strike and we're working. It's illogical," said Lizette Clavel, the union's spokeswoman. "The requisitioning is a violation of our right to strike, but we're co-operating because we don't want to cause problems for passengers."

Aeromexico, which is owned by the Mexican airline holding company Cintra, has been at loggerheads with the union during negotiations over pay, retirement benefits and additional staff. The company has protested that workers are seeking a 100 per cent pay rise, though the union says it would accept Aeromexico's offer of an 18 per cent increase if other benefits were added.

"The requisitioning will last as long as the company and the union remain in negotiations," said Aarón Dichter, the deputy transport minister.

Requisitioning gives the government the legal right to intervene in the running of a public service if it feels there is a risk of national chaos. Aeromexico flies some 30,000 passengers a day, and is the only airline that serves some cities.

The Flight Attendants Union is one of Mexico's growing breed of independent unions that have been offering workers an alternative to pro-government labour associations since 1995. Its decision to co-operate with the government suggested the bark of independent unions might be worse than their bite. It had already postponed a strike it threatened at Easter to avoid causing problems for passengers.

Nuclear states in S Asia initiative

By James Kynge in Beijing and David Buchan in London

China and the world's four other established nuclear weapons states have launched an intensive diplomatic drive to get India and Pakistan to stop increasing or testing their atomic arsenals.

Beijing is to send its foreign minister to Geneva on Thursday to meet those of the four other traditional nuclear states who are also permanent members of the United Nations Security Council.

Washington and Beijing have never before been in such constant communication, a senior Chinese official said yesterday. Jiang Zemin, China's president, inaugurated a new "hotline" link with President Bill Clinton to discuss how to stop the nuclear weapons build up in the sub-continent.

Foreign ministers of the four traditional nuclear powers met last week to discuss the crisis, through the regular partnership that Russia has with Nato. Unlike China, Russia is also a member of the Group of Eight, whose foreign ministers are to meet in London on June 12 at the invitation of Robin Cook of Britain, which currently chairs the G8.

The aim of the meetings would be to "press India and Pakistan to sign up to the global regime against nuclear proliferation", Mr Cook said yesterday.

The way that Chinese diplomacy has been galvanised into action shows its desire to prevent a nuclear arms build-up between India, which last month identified Beijing as a prime potential enemy, and Pakistan, one of its staunchest allies.

The senior Chinese official said he thought the issue of Kashmir, over which India and Pakistan have fought three wars, would be raised in Geneva. He said the main priorities would be to urge India and Pakistan not to cross the line of control specified under a 1972 agreement not to open fire at each other and to try to defuse bilateral tensions.

But China did not seek to become directly involved in Kashmir. New Delhi has long insisted that Kashmir is a strictly bilateral problem with Pakistan. It appears, however, that the Geneva meeting may seek to internationalise the issue.

China hopes that India can be persuaded not to develop missiles which could deliver nuclear warheads to key Chinese cities. But amid the current uncertainty, Beijing did not rule out that it would never itself test nuclear weapons again.

Under the Comprehensive Test Ban Treaty, "we are free to opt out if (an action) threatens our supreme national interests," the official said.

Meanwhile Mr Cook said he expected EU foreign ministers to agree a statement on Monday urging international banks to suspend loans to Pakistan and to ask the European Commission to review the country's preferential trade status.

COST OF INDONESIAN FINANCIAL SECTOR BAIL-OUT EXPECTED TO BE MUCH HIGHER THAN FIRST THOUGHT

Banking audit 'finds irregularities'

By Sander Thoenes and Gwen Robinson in Jakarta

Audits of six Indonesian banks taken over by the government indicate massive irregularities and suggest that the cost of the bank sector bail-out will be much higher than expected, newspaper reports said yesterday.

Two authoritative newspapers reported yesterday that audits of six of at least 55 banks that have been taken over by a state-run bank restructuring agency, IBRA, had revealed a gap between assets and liabilities of some Rp85,000bn ($7.5bn). Bank analysts said the data suggested over-valuation of outstanding loans and under-reporting of deposits, which means that IBRA will have less to recover and more to pay out.

The reports, citing IBRA sources and regarded as plausible by bankers, said that the two largest banks under IBRA, Bank Dagang Negara Indonesia and Bank Danamon, under-stated their liabilities by 33.3 per cent and 33.1 per cent respectively. BDNI's loan portfolio and other assets were worth less than a fifth of what the bank had reported.

IBRA staff declined to comment and Syahril Sabirin, central bank governor, said only that the Rp85,000bn figure did not, as newspapers suggested, represent the loss the government would bear. Frank Shea, Bank Danamon vice-president, said the gap between the reported and audited data on deposits could be due in part to different exchange rates used: his bank dominated the market in dollar deposits.

"It must be interpretational," he said. "It can't be fraud."

Either way, these figures suggest that many banks are likely to be in much worse shape than earlier reported, raising the likely cost of rescuing the banking sector beyond the Rp102,000bn the central bank has lent to commercial banks since late last year to offset a run on the banks.

At the recommendation of the IMF, Indonesia's government in January guaranteed all deposits and credits to the country's more than 200 commercial banks. Introduced to revive confidence in the banks, the guarantee was supposed to come in tandem with strong central bank control over the banks and a full takeover of the heaviest borrowers.

But bankers said that IBRA failed to exert sufficient control over the banks and got lost in political squabbles and vested interests. One of its directors was fired, another resigned last week.

William Keeling, senior adviser to Dresdner Kleinwort Benson in Jakarta, said such a guarantee had only encouraged bad bank practice. "You suddenly had a huge incentive to let things get worse knowing your deposit base was secure and the government would pick up the pieces."

Meanwhile Indonesia yesterday resumed negotiations on the restructuring of its private sector debt in talks which were postponed last month owing to the political uncertainty in Jakarta.

The negotiations, which are expected to last until tomorrow or Thursday, will look at ways of rescheduling about $80bn of dollar and yen-denominated debt, most of which is owed by private Indonesian companies to foreign banks. The remainder includes trade finance and debt owed by Indonesian banks to foreign banks.

Officials at Chase Manhattan and Deutsche Bank, which, together with the Bank of Tokyo Mitsubishi, chair the steering committee of western banks, said it was too early to judge progress.

Moslem students shout anti-US slogans outside the US embassy in Jakarta yesterday. They were calling for the resumption of international loan payments Reuters

Suharto assets will be probed, says Habibie

By Gwen Robinson in Jakarta

Indonesia's new president, B.J. Habibie, gave the first official confirmation yesterday that the government would investigate the assets of the country's former president Suharto. He added that Mr Suharto and his immediate family had agreed not to leave the country.

Sudjono Atmonegoro, the attorney general, said his department had assigned an official to investigate Mr Suharto's network of charity foundations. But Mr Sudjono qualified the move by saying Mr Suharto would be "presumed innocent" and would be summoned "only if irregularities were found". He did not mention the business interests of Mr Suharto's six children, which span most sectors of Indonesian business.

Critics saw the announcement as a weak response to growing public anger in the wake of Mr Suharto's resignation on May 21 against the business privileges enjoyed by family and friends of the former president. The calls for investigation, asset sequestration and even trials for the former first family have presented an excruciating dilemma for Mr Habibie, a long-time Suharto protegé who has himself developed a large family business empire.

Of more than 1,200 companies in which Suharto family members are believed to hold shares, there are about 100 charitable foundations controlled by the Suharto family. At least 12 were directly controlled by the former president and, with substantial contributions from industry, formed the basis of his personal wealth.

The investigation would take a long time "as it involves many document", Mr Sudjono said. "We will summon Mr Suharto if we find irregularities and need clarification from him."

But the calls for stronger action are unlikely to abate. Every day, Indonesian media feature new information about Suharto family wealth. Photocopied lists of the family's assets are being sold on the streets of Jakarta for the equivalent of 10 US cents, detailing a vast network of family-linked companies spanning sectors from palm oil and telecommunications to construction and retail.

Opposition activists have taken up the call. Amien Rais, a Moslem leader and opposition figure, yesterday urged the Suharto family to return some of their accumulated wealth to help Indonesia through its economic crisis.

Christianto Wibisono, a private economist who heads the Indonesian Business Data Centre, yesterday estimated the wealth of Mr Suharto and his immediate circle at Rp200,000bn ($17.7bn). But other estimates by US think-tanks have put the figure at $46bn. Mr Wibisono said that Suharto family and friends who gained wealth through corruption and nepotism should be granted immunity from prosecution if they handed over 55 per cent of their assets to the state treasury.

The Jakarta stock market fell 1.5 per cent yesterday, dragged down by heavy selling of shares in Suharto-linked companies. Among the listed companies controlled by Mr Suharto's children, Bimantara Citra, a diversified conglomerate majority-owned by Bambang Trihatmodjo, Mr Suharto's second son, fell nearly 25 per cent to Rp350 against its 1997 high of Rp4,500. Bimantara surged briefly last Friday after Mr Bambang resigned as chief executive.

Astra International, an automobile group part-owned by Mr Suharto's Nusamba Group, fell slightly and Citra Marga a toll-road operator controlled by Mr Suharto's eldest daughter Siti Hadiyanti Rukmana, was unchanged.

Sinha disappoints investors

By Krishna Guha in Bombay

Yashwant Sinha, India's finance minister, yesterday said the government was committed to creating a "hassle-free environment for foreign investors" and aimed to double foreign direct investment in two years.

But while analysts welcomed plans to reduce state shareholdings in "non-strategic" enterprises to 26 per cent, they said the budget contained little else to excite investors.

Foreign insurance companies expressed "disappointment" at Mr Sinha's decision to open the market only to the domestic private sector. One foreign insurance executive said it would make it a "lot more difficult" to develop the insurance market and raise funds for infrastructure.

Infrastructure investors received little more than a promise to clear all investment proposals "within a period of 90 days." Mr Sinha said the government will appoint a dedicated civil servant to process each application above Rs1bn ($25m).

By contrast, there were incentives for non-resident Indians to invest in their country of origin – including new dollar denominated securities and visa-free travel for "Persons of Indian Origin".

Portfolio investors expressed surprise that the budget did not include widely touted moves to introduce share buy-backs and allow provident funds to invest more in equities.

Attention focused on Mr Sinha's planned dash for growth. "People were asking for a kick start – he has given a hard kick," said Sree Kamal Sen, economist at DSP Merrill Lynch. He said Mr Sinha had increased plan investment by Rs110bn and total spending on energy, power and telecoms by Rs150bn. But higher infrastructure spending would only be effective if accompanied by legislative reforms, including better regulation.

Investors are nervous about plans to fund spending through increases in indirect taxes – which will only pay off if growth rises.

"It was quite sickening to read one spending increase after another without any real off-setting revenue," said the head of research at one securities firm in Bombay.

Few investors expect Mr Sinha to achieve the target fiscal deficit of 5.6 per cent. "That number is for political consumption," said one investor, who expected the real figure to be more than 6 per cent.

In volatile trading yesterday infrastructure and commodity stocks held their ground – boosted by the 8 per cent additional levy on imports and higher government spending.

Analysts said Tata Iron and Steel and Steel Authority of India would gain from a further 5 per cent rise in import tariffs on cold rolled steel. Cement companies stand to benefit from infrastructure and housing initiatives. But a small increase in duty is unlikely to save India's beleaguered paper industry.

Consumer goods stocks such as Hindustan Lever, Cadburys India and Tata Tea – hit by the imposition of excise duties on branded food, chocolates and packaged tea – fell sharply, dragging the market down.

"It is a very bad budget for fast moving consumer goods," said Jaspreet Ahuja, director at Caspian Broking.

Concern mounts as HK shares fall again

By John Ridding in Hong Kong

Concern mounted yesterday over Hong Kong's economic prospects as shares continued their sharp decline and government measures to restore confidence faced criticism from investors and economists.

The benchmark Hang Seng stockmarket index fell 3.6 per cent, adding to sharp falls last week and taking it more than 27 per cent below its peak at the end of March. Money market interest rates climbed during the day, with the three-month rate rising from 8 to 8.5 per cent.

Investors and economists said government measures announced last Friday were insufficient to prevent the rapid slide in the economy, which saw output fall by 2 per cent in the first quarter. They also raised concern about elements of the government's stimulus package, particularly the suspension of anti-speculative measures in the property sector.

"It sends a bad signal," said Christopher Tinker, regional head of economics research at ING Barings. He said the measures obstructed the adjustment necessary to restore competitiveness and gave the impression of pandering to property-sector interest groups.

While developers welcomed the measures, continued concerns about prospects for the property sector sent shares falling sharply. Cheung Kong, the flagship company of Li Ka-shing's business empire, fell HK$2.20 to HK$39.70. Bank shares were also hit hard amid growing concerns of declining asset values.

After Friday's announcement of a fall in first quarter gross domestic product, many economists yesterday predicted a fall in full-year growth, a first for Hong Kong. They also saw continued pressure on the stockmarket as the territory's local economic problems are compounded by regional turmoil and the fall in the Japanese yen.

Declining confidence was evident in a government survey which showed 59 per cent of respondents believed Hong Kong would remain prosperous and stable, compared with 67 per cent in the last survey in March. Just over 30 per cent of respondents expressed satisfaction with the government's performance, down from the previous score of 48 per cent.

Waning economic confidence and the prospect of recession has fuelled speculation about the Hong Kong dollar peg to the US currency. The government insists the peg will be maintained, arguing that adjustment to the exchange rate mechanism could bring devastating results in terms of currency depreciation, inflation and capital flight.

Reserves figures push yen lower

By Gillian Tett in Tokyo

Japan's foreign exchange reserves rose $1.2bn in May to $207bn, indicating that the government did not intervene in the currency markets in the last month. This suggests that the government has abandoned attempts it made earlier this year to stop the yen's sharp slide.

In April, foreign exchange reserves fell by $17.8bn – or almost 10 per cent – after the government intervened heavily to support the yen.

The reserves figure yesterday pushed the yen down to a record low. In early European trading the yen fell to Y139.33 against the dollar, its lowest level for nearly seven years and close to the psychologically important level of Y140.

The currency weakness also pushed long-term interest rates down to record lows. The 182 government bond contract, the long-term benchmark, fell to L165 per cent, a total of 35 basis points on the day.

The Ministry of Finance yesterday denied that the fluctuation in the reserves indicated any change in its policy towards the yen. However, some economists concluded that the fluctuations showed that government was now ready to accept further yen falls and so would not intervene again.

In addition, many traders suspect that the US government has also become more willing to tolerate yen weakness. Jesper Koll, economist at JP Morgan, said: "Intervention can send a signal to the markets, but it only really works if the fundamentals are supporting it. We are expecting a level of Y142 by the end of this month."

The currency was also dented by recent poor economic data: the government reported on Friday that unemployment in Japan rose to a record 4.1 per cent in April. Market confidence was further undermined by rumours that Nissan Motors, the carmaker, had incurred large losses in derivatives trading. Nissan denied the rumours.

NEWS DIGEST

GESTURE TO PRESIDENT

Korean unions may postpone strike

The Korea Confederation of Trade Unions, the smaller and more militant of the nation's two labour groups, yesterday suggested it would postpone a general strike scheduled for June 10.

In a conciliatory gesture, the group said it was willing to "fully co-operate (with the government) so that President Kim Dae-jung's state visit to the US will be successful". Mr Kim, who will be in the US between June 6 to 14, will meet the US president and visit Wall Street to appeal for investment in Korea. There have been fears that the recent labor unrest may scare away foreign investors from Korea.

Analysts said the KCTU appeared to be responding to lukewarm public support for industrial action after it staged a two-day general strike that fell below the group's expectations of attracting 120,000 workers.

The series of strikes were called to protest at mass redundancies made possible by a new law that ended lifetime employment guarantees. The Seoul bourse rose 1.4 per cent to close at 336.70 after being battered last week by worries over labour unrest. **John Burton, Seoul**

JAPANESE POLITICS

Alliance ends with LDP

Two left-leaning parties are to withdraw from their loose alliance with the ruling Liberal Democratic party. The decision ends four years' co-operation between the LDP and the socialists and the liberal Sakigake party.

The Social Democratic party and the New Party Sakigake told Ryutaro Hashimoto, the prime minister, that they would formally end their alliance with the LDP because of differences over a political ethics law and other issues. The break-up, long expected, will not have a significant effect on the LDP, which has a majority in the powerful lower house of the Diet.

The moves by the two minor parties highlight the extent to which the socialists and the liberal Sakigake party have been weakened through their association with the LDP in an alliance that forced embarassing compromises and tarnished their public image.

Both the socialists and Sakigake party appear to have decided that remaining in the alliance would further damage their chances in the upcoming national elections for the upper house. The separation of the parties also highlights the strengthened grip on government that the LDP has gained in spite of its poor public rating. The LDP has been able to ram through legislation and has emerged victorious in all of the past five by-elections largely as a result of opposition ineffectiveness. **Michiyo Nakamoto, Tokyo**

THAI INFLATION

Consumer price index up 10%

The Thai consumer price index rose by 10.2 per cent in May year-on-year, the second consecutive month of double digit growth, on the back of a seasonal food price surge, the commerce ministry said yesterday. Despite the rise, analysts and officials said they still believed inflation was unlikely to be a big threat to the slowing economy because sluggish demand would help cap 1998 inflation at around 10 per cent.

The government has projected that the economy will contract by 4.0-5.5 per cent in calendar 1998 against an earlier estimate of 3.0-3.5 per cent, and a 0.4 per cent contraction in 1997.

The inflation rate averaged 9.5 per cent during the first five months of this year. **Reuters, Bangkok**

Suharto assets will be probed, says Habibie

Korean unions may postpone strike

Botha arriving in court in George, South Africa, yesterday AP

Botha under fire over SA secrets

By Greta Steyn in Johannesburg

An unrepentant P. W. Botha, the former South African president, was yesterday accused of withholding information on cross-border murders of anti-apartheid activists.

Mr Botha, 82, was in court in George, near his Cape coastal home, for defying a subpoena to appear before the Truth and Reconciliation Commission (TRC), which has been examining human rights abuses by all sides before the first democratic election four years ago.

Known to his detractors as "the Great Crocodile" for perceived intolerance of opposition, he faces the possibility of two years in jail or a fine.

Paul van Zyl, TRC executive secretary and the first witness in Mr Botha's trial, said the former president had chaired state security council meetings where unlawful state killings had been discussed. The TRC had access to the minutes of the council, which was a powerful collection of security chiefs and cabinet ministers.

Mr Van Zyl said the secret operations the TRC wanted to know more about included the killing of Dulcie September, the African National Congress chief representative in Paris, as well as the parcel bombs sent to anti-apartheid activists Ruth First, Father Michal Lapsley and Janet Schoon.

"What the TRC would want to know is whether the state security council did or did not authorise such operations," Mr Van Zyl said.

Mr Botha has refused to give evidence or the state security council saying the TRC was a "circus" which wanted to undermine Afrikaners by humiliating him.

He has portrayed himself, with limited success, as Afrikanerdom's martyr fighting a lonely crusade against victimisation by the ANC.

So far, there is no sign of meaningful support for him from the National party, South Africa's main opposition party and still the home of most Afrikaners.

He has the support, however, of the Afrikaans press and of right-wing Afrikaner parties. Constand Viljoen, the leader of the Freedom Front, and Ferdi Hartzenberg, the leader of the Conservative Party were among a small group of supporters who turned up at yesterday's hearing.

Mr Viljoen, who was a general in the apartheid era, said the TRC was becoming "a propaganda instrument" for the ANC.

His comments, and Mr Botha's defiance, highlight the long road South Africa still has to travel to achieve the reconciliation and healing hoped for by Archbishop Desmond Tutu, TRC chairman.

The lack of reconciliation was emphasised by Thabo Mbeki the deputy president, in a speech in parliament last Friday. "South Africa is a country of two nations – one white and wealthy, the other black and poor. The objective of national reconciliation is not being realised," Mr Mbeki said.

In a further reminder of South Africa's bloody past, Ferdi Barnard was yesterday convicted of murdering anti-apartheid activist David Webster and attempting to murder Justice Minister Dullah Omar. Barnard was convicted on 25 charges.

Kaunda free after charges are dropped

By Michela Wrong

Kenneth Kaunda, Zambia's former president, yesterday walked from court a free man after the state dropped treason charges against him, signalling that it had taken on board foreign concerns about the government's deteriorating human rights record.

"I feel simply great," said the 74-year-old opposition leader, sporting a white beard grown in detention.

He later hinted that he was planning to retire from active politics, saying that his Unip party would be calling a special congress to decide its future.

Within minutes of the start of the trial, the Zambian attorney general announced that the state was withdrawing all charges against Mr Kaunda, who was arrested last Christmas day and accused of failing to report a planned army coup against President Frederick Chiluba.

Last year's putsch attempt, a near-farcical episode led by the born-again "Captain Solo", was crushed within hours of being launched by a small group of junior officers on October 28.

But the authorities seized the opportunity for a crackdown on the civilian opposition. The arrest of more than 100 people, declaration of a state of emergency and reports of police torture were denounced by human rights groups and donor governments, who warned of an increasingly authoritarian streak emerging from a government once regarded as a model of African democracy.

Diplomats in the capital, Lusaka, yesterday attributed Mr Kaunda's release to the intercession of Nelson Mandela, South Africa's president, who was exploiting the close ties established during the African National Congress' years of exile in Zambia.

But last month's pledging session in Paris will certainly also have played a role. At that meeting, twice postponed because of donor anger over Mr Chiluba's policies, governments explicitly linked $530m in aid to "swift and decisive action" on human rights abuses as well as rapid progress on privatisation of the key copper industry. Zambia desperately needs those funds to plug a foreign exchange shortage, stabilise the sliding kwacha, cushion the effect of low copper production and repair the damage done by El Niño, which has hit production of maize and raised the spectre of food shortages.

Foreign governments will be watching to see whether 80 other people on trial for treason, who face possible death sentences, will be shown similar leniency. With a second meeting scheduled for later this year, donors are being careful not to surrender their most effective method of influencing government behaviour.

ILO feels its age as it tries to keep up with a changing world

After 79 years, the UN agency is said to have lost the intellectual initiative in the new global economic climate. **Frances Williams** looks at the growing pressures for reform

The International Labour Organisation, whose annual conference opens today, could do with the institutional equivalent of a shot in the arm.

At a time of rising global inequalities and insecurities, the one United Nations body dedicated to the promotion of social justice and the welfare of ordinary people is feeling its 79 years.

The main criticisms of the ILO, that it is too slow and feeble, are underscored by this year's conference agenda. Where, for instance, is any mention of the Asian crisis, now nearly a year old, which has devastated the livelihoods of millions of workers?

A proposed new convention outlawing intolerable forms of child labour, said to require immediate action, will be given a "first reading" at the conference but will not be adopted until 1999, and then will be binding only on those countries which ratify it, perhaps years later.

Its supporters hope the proposed convention will be more effective than its predecessor by focusing resources and attention on the worst abuses. But the reality is that neither the ILO's existing child labour convention nor a well funded technical assistance programme has had much impact.

Indeed, the centrepiece of this year's conference – a "solemn declaration" committing the ILO's 174 members to upholding seven core labour standards – is an acknowledgement that the organisation's traditional standard-setting system is not working effectively.

These core standards – freedom to form trade unions and bargain collectively, a ban on forced labour and child labour, and non-discrimination in the workplace – are already the subject of ILO conventions and are implicitly accepted by countries when they join the organisation.

Nevertheless, not all ILO members have signed up to the relevant conventions and some flout even the basic principles with impunity. The worst sanction the ILO can impose is to establish, as it did for Nigeria in March, a commission of inquiry to look into abuses of trade union rights.

The proposed declaration will do little to change this situation.

Developing countries, notably Mexico, Egypt and Pakistan, fought fiercely to prevent the development of any follow-up mechanism with teeth, even ruling out the naming of countries which breach basic worker rights.

Instead, the ILO will make a "global report" on progress in these areas – useful, possibly, but hardly a deterrent.

Michel Hansenne, the ILO's outgoing Belgian director-general, admits that "one might have hoped for better" but argues that it is important to create a mechanism that allows regular discussion of the issues.

Still, a minimalist result will not satisfy trade unions and others which pressed for a more robust ILO stance after World Trade Organisation ministers in 1996 refused to incorporate labour standards in enforceable global trade rules.

Set up in 1919 after the Russian revolution to show workers elsewhere that capitalism cared, the ILO received the Nobel peace prize in 1969 and won international plaudits for its principled stand on freedoms in Poland, the Israeli-occupied territories and South Africa.

But the end of communism in Russia and eastern Europe, and the powerful economic forces unleashed by globalisation, have left the ILO struggling to keep up.

Juan Somavia of Chile, Mr Hansenne's elected successor, who takes over next March, will need to address some fundamental problems facing the organisation, in addition to much-needed management reform:

■ Its central standard-setting role needs rethinking. The core conventions apart, many of the ILO's 180-odd standards have been ratified by only a few governments.

■ Its unique tripartite system, which gives trade unions and employers' organisations equal status with governments in ILO bodies, is less and less representative.

Trade union membership is shrinking, and in most countries accounts for a minority of workers; many employers' organisations also have selective and unrepresentative memberships. Unemployed and non-unionised workers have no institutional voice in the ILO.

Nor do the world's powerful multinationals, still less the many small and medium-sized companies which create most of the world's jobs.

■ It has lost the intellectual initiative in the new global economic climate.

In a world of flexible employment, rising unemployment and the growing participation of women in the labour force, the ILO is still chanting the mantra of "full employment" and advising governments to introduce insurance-based social security systems founded on the notion of the full-time male breadwinner.

On current issues such as "workfare", the ILO has said little or nothing.

■ It has allowed other international agencies, such as the IMF and World Bank, to push their own agendas for social and labour reform by failing to respond quickly and effectively to crises such as the current economic turmoil in east Asia and, before that, the collapse of communism in eastern Europe.

Mr Somavia is well aware that the ILO will have to respond quickly to meet these challenges.

Child labour high on the agenda

Hundreds of children will converge on the International Labour Organisation today at the end of an historic Global March against child labour that began five months ago in the Philippines and has since traversed five continents, **Frances Williams reports.**

The children will take part in the opening session of the ILO's annual conference, which this year will discuss a new convention to tackle the worst forms of child labour such as slavery, child prostitution and pornography, and hazardous work. At the same time, international trade unions and employers' organisations are launching their own initiative against child labour, estimated to involve some 250m children aged between five 5 and 14 worldwide

The International Organisation of Employers yesterday published a handbook on child labour, outlining a series of measures its 16 member organisations are being urged to take to combat the problem

Helms-Burton deal may come unstuck

By Nancy Dunne in Washington

An agreement between the EU and US over sanctions on Cuba, announced with great fanfare two weeks ago, is in serious jeopardy in Congress. Unless the House and Senate amend the Helms-Burton law, designed to discourage foreign investment in Cuba, the EU-US deal will come unstuck.

Senator Jesse Helms, the conservative chairman of the Senate Foreign Relations committee, lost little time in condemning the deal. He was joined by Congressman Benjamin Gilman, chairman of the House International Relations Committee. "You have the two chairmen of the two key committees saying this is a non-starter," said a Congressional staff member. "This is probably the way it's going to be unless there is a tremendous change in sentiment."

The law permits Cuban Americans to sue foreign companies which invest in property they owned in Cuba before it was expropriated by the Castro regime. This provision has been consistently waived by the administration, but the EU accord calls for amending the law to provide a permanent waiver. This has annoyed Helms-Burton supporters, who say the Europeans would then feel free to invest in Cuba.

The EU-US deal also calls for giving the US administration the power to waive Title IV of the law, under which officials of companies investing in Cuban expropriated property, and their families, can be denied entry to the US. To calm EU sensitivities, the administration has not enforced Title IV against European companies, which has furthered angered Senator Helms and others.

"This proposed (EU-US) agreement would amount to nothing more than a dilution of Helms-Burton in exchange for a lot of hot air," said Senator Helms. Congressman Gilman complains the US-EU accord, which would set up a registry in Europe of expropriated properties, has "no teeth". He called Stuart Eizenstat, the State Department undersecretary, to testify before his committee tomorrow. Newt Gingrich, House speaker, has also indicated he will not support amendments to Helms-Burton. Mr Gingrich has made a point in recent weeks of attacking administration foreign policy.

Greg Mastel, an economic and foreign policy analyst with the Washington-based Economic Strategy Institute, said it will be increasingly difficult for the administration to work with Congress as the autumn mid-term elections approach, but there could be "a window of opportunity" early next year. "It's possible to get things done in Congress while Mr Helms opposes: it happens all the time," he said. "But it isn't easy, particularly on issues like this, where he is willing to fight."

The passage of the Helms-Burton law provoked an outcry from US trading partners, and the EU brought a complaint to the World Trade Organisation. That complaint was dropped but could be resurrected if the US-EU deal falls apart.

Tarnished 'white gold' causes Canada trade policy dilemma

Canadians are concerned that an adverse WTO ruling might lead to more countries banning asbestos, reports **Andrew Bolger**

A town called Asbestos might sound like a sick joke to those who associate the mineral only with occupational illness and contaminated buildings. However, people in Quebec are deadly serious about defending the substance they know as *l'or blanc* – white gold.

The last 20 years have seen a steady reduction in global production of asbestos – and a rise in international bans on the use of the more dangerous blue (crocidolite) and brown (amosite) forms. Yet Canada remains the world's second largest producer, after the former Soviet Union, of white asbestos, chrystolite, most of which is used in cement building products.

But chrystolite, too, is increasingly being banned. When in 1996 France suddenly announced a ban on all asbestos products, it became the eighth European Union country to do so. Quebec politicians pressed Canada to ask the World Trade Organisation to rule on whether the ban is permitted within world trade rules. Canada has been wary, fearing an adverse ruling might lead to more countries banning the material.

Canadian production of chrystolite peaked in 1981, when eight mines produced 1.3m tonnes of fibre and the industry supported 18,000 jobs. This year, output is likely to fall to just over 400,000 tonnes – worth about C\$200m (US\$137m). Today about 6,000 Canadians are reliant on the asbestos industry – but only 2,000 are directly involved in mining. There are just three mines left, all in small towns close to the border with New England – Asbestos, Thetford Mines and Black Lake.

"I don't think it would be a town without asbestos," says Louise Moisan-Coulombe, mayor of Asbestos, which is perched on the rim of what is claimed to be the largest open-pit asbestos mine in the world – a crater 2km across and more than 320 metres deep. This Jeffrey Mine, which has been worked since 1881, now has a workforce of about 700 – down from a peak of 2,800. It remains the main employer in a town that suffers unemployment of 15 per cent.

However, politics ensures the asbestos industry will not fade away quietly. The provincial government run by the Parti Quebecois is committed to holding a fourth referendum on separation from Canada. Since Quebec's "asbestos region" is mainly French-speaking, the federal government is anxious to be seen doing all it can to defend an important industry.

Not that the French connection has proved all that helpful to Quebec's asbestos industry. Canadian officials complain France's 1996 asbestos ban was a "purely" political response to French concern over a contaminated blood scandal, "mad cow" disease and the discovery of asbestos insulation at Jussieu University in Paris. "Of course we were very angry about the way France banned asbestos," says Denise Carrier Perreault, the Parti Quebecois provincial minister of natural resources.

UK trade unions and anti-asbestos pressure groups were alarmed that Canadian lobbying was succeeding when Britain's government-funded Health and Safety Commission recently failed to propose a ban on asbestos imports.

British officials insist that the UK remains committed to restricting the import and use of white asbestos, but say that the scientific case must be shown to be robust.

White asbestos is a different mineral from blue and brown asbestos but has similar physical and chemical properties. It is less "biopersistent", in that the body can break down and remove the fibres. However, it has been known since the 1930s to cause asbestosis, a crippling respiratory disease. Its role in lung cancer and mesothelioma is suspected by some experts but as yet unproven.

Last year the UK imported only 5,000 tonnes of white asbestos – a figure that has halved in the last two years and compares with a 1973 peak of 190,000 tonnes. But although sales in the UK are small, the asbestos producers fear the loss of the UK market – or even worse, an EU-wide ban – because of the potential symbolic effect on Asia and the developing world, which are now the main users of asbestos.

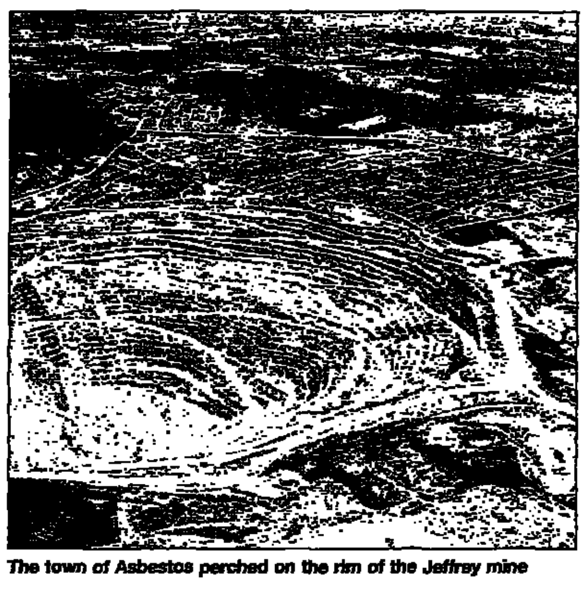
In Quebec's asbestos region, there is a strong sense of an era coming to a close, in spite of new investment. J. M. Asbestos, which operates the Jeffrey mine, is spending C\$125m on an underground operation to extend its life for another 20 years. The underground Bell mine in Thetford Mines is being driven to new levels, which should ensure production for at least 10 years. The third mine, an open-pit operation at Black Lake, also has reserves for about 14 years.

Yet everywhere there are signs of decline. Last year's closure of the British Canadian mine at Black Lake meant the loss of 300 jobs.

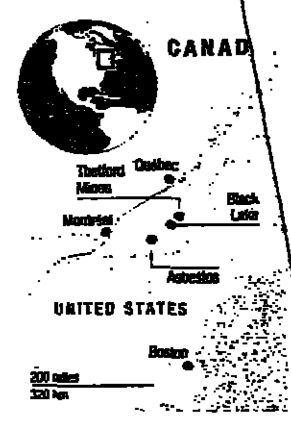
In nearby Thetford Mines, the mineralogy college is well subscribed – but the students see few prospects locally. One said: "I know asbestos is safe, and I would like to stay in the area – but we are all going to have go elsewhere to work in mining. It's over."

First step in challenge to French ban

Canada last week took the first step to put France through the World Trade Organisation's disputes procedure over its ban on imports of white asbestos, imposed last year, **Andrew Bolger writes.** Ralph Goodale, natural resources minister, said: "The government's objective is to maintain market access for chrystolite asbestos products, which are safe when used properly." Martin Cauchon, economic development secretary, said: "Canada wants to counter the impact of the French measures on the development of this industry and on the survival of related jobs."



The town of Asbestos perched on the rim of the Jeffrey mine



Growth in PCs forecast in Europe

By Paul Taylor in London

The market for personal computers in western Europe will continue to grow by around 14 per cent in unit terms this year, but falling PC prices mean revenues will grow much more slowly, by around 4.1 per cent, according to a forecast by International Data Corporation, the market analysts.

IDC expects PC shipments to remain bouyant for the rest of this year but says a significant drop in the average spending on a PC means revenues will grow much more slowly than the 8.5 per cent growth recorded last year.

In the short term, this means better than ever price/performance for PC buyers, according to Terry Ernest-Jones, senior consultant with IDC's European Personal Systems research group. But in the long term, it is the largest vendors who will benefit, as fewer and fewer smaller companies are able to compete, and will drop out of the market. "The dynamics of the PC market in western Europe have changed," he said. "As typical business configurations for desktop and portable PCs fall further and faster in price, it is projected that the average lifespan of a business PC will shorten. So the frequency of upgrades and the market growth will increase beyond levels previously expected."

Lower entry-level pricing, improved product and support/service packaging and more effective marketing will also encourage homes and small businesses both to upgrade a little more frequently and purchase systems for new users. Sub-\$700 PCs, including monitors, are already being advertised. IDC argues that the top-tier global PC vendors shipping large volumes will have a clear advantage in western Europe and will continue to gain share against smaller players.

Smiths wins airline contract

By Michael Skapinker
Aerospace Correspondent

Smiths Industries of the UK has won a contract from Southwest Airlines, the leading US low-cost carrier, to install new flight management systems in the carrier's older Boeing 737s.

The deal to re-equip 208 Southwest aircraft is thought to be worth about \$20m. If the UK avionics, medical systems and industrial products group wins contracts to refit the worldwide fleet of 1,600 "classic" Boeing 737s, the additional business could be worth about \$200m. The older 737s carry Smiths' earlier generation of computers.

The new generation Smiths flight management computers, which are manufactured in Grand Rapids, Michigan, allow the older aircraft to plot their positions using satellite-based global navigation systems. They also allow aircraft and ground control to exchange information about weather and flight plans electronically, rather than by radio.

Smiths is also hoping to win contracts to re-equip other models, including military transport aircraft. Smiths won the contract to place its flight management system in Air Force One, the US presidential aircraft, which is a Boeing 747.

Smiths said the system was fitted after the death in 1996 of Ron Brown, the US commerce secretary, and 32 other passengers when their military transport aircraft crashed in Croatia. That aircraft was an adapted version of a Boeing 737.

Outside the Boeing 737 market, Smith will be competing with Honeywell of the US to fit modern computers in older aircraft. Smiths, a long-established Boeing supplier, also managed to establish a foothold with Airbus Industrie when it agreed earlier this year to supply flight management systems to Sextant Avionique of France.

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STERLING STRENGTH MANUFACTURERS SUFFER SHARPEST DECLINE IN ORDERS SINCE 1995

Data show export demand still falling

By Robert Chote, Economics Editor

UK manufacturers are suffering the sharpest fall in orders since 1995, as export demand continues to decline in response to the strength of sterling.

Manufacturing activity declined for a second successive month in May, according to the latest monthly survey from the Chartered Institute of Purchasing and Supply. Official figures may show the recession in the factory sector continuing.

"After two years of steady growth, the question now *remains whether the manufacturing* economy will slip further in recession or level out," said Peter Thomson, institute director-general.

The survey will provide food for thought for the monetary policy committee of the Bank of England, the UK central bank, which begins deliberations tomorrow.

City of London economists expect interest rates to remain at 7.25 per cent, with the weakness of the trading sector offsetting signs of inflationary pressure in the labour market.

The Bank provided further evidence of the relatively robust performance of the service sector, with figures showing steady growth in the amount of cash circulating in the economy. But strong growth a year ago meant that the annual rate of increase slipped from 6.8 to 6.3 per cent.

After adjusting for seasonal patterns, new orders dropped for the second month running, according to the CIPS. Export orders dropped sharply and companies also found themselves *losing domestic orders to* cheaper imports.

One in four firms reported a fall in export orders as the strength of sterling eroded the competitiveness of UK goods. Sterling has been weaker in recent weeks, but this is not expected to offset its earlier strength for some time. Weaker demand from Asia was also a negative influence.

The survey respondents reported that factory output was stagnating. Output growth came to an abrupt halt in April as manufactur*ers reduced capacity in* response to the weakening in demand of recent months.

Firms reduced their purchasing for the fourth time in five months. In part this reflected a desire to reduce costs by holding fewer stocks. But they were also anticipating a further slowdown in activity.

Stocks of purchased materials and components dropped at their fastest rate since February. One in five firms reported that they were de-stocking. Stocks of finished goods fell for the sixth successive month.

Sterling's strength also held down the cost of imported materials and components, while the Asian crisis continued to depress commodity prices. The rate at which input prices are falling slowed slightly.

Manufacturers shed jobs for the third successive month and at a faster rate than in April. Companies said they were reluctant to fill vacancies created by natural wastage.

Minister to unveil venture capital scheme

By Richard Adams, Economics Staff

Gordon Brown, the chancellor of the exchequer, will today announce details of a £120m ($200m) venture capital trust to help high-tech start-up companies, backed by the European Investment Bank.

The Treasury said the scheme would be targeted at "high quality projects generating wealth and jobs, with a particular emphasis on the *high-tech sector*". Some 80 per cent of the EIB funds will be earmarked for UK companies, with the remainder open to companies from other European Union coun*tries.*

Mr Brown will unveil two trusts involving public and private funding. The funds will be supported by the European Investment Fund *as well as the EIB. One of* the funds will be managed by Baring Private Equity Partners, the development capital firm.

The EIF administers the £85m European Technology Facility. The EIF will use today's conference to announce an investment in a UK venture capital fund, possibly Amadeus, the fund set up by Hermann Hauser, the Cambridge-based information technology entrepreneur.

The European Commission has plans for the EIF to administer funding worth £100m to £125m for venture capitalists investing in high-growth businesses at an early stage.

Dominique Strauss-Kahn, the French economics minister, will also address the London conference.

At a briefing yesterday Geoffrey Robinson, a Treasury minister, outlined the need for greater venture capital fund investment to bring Europe up to the levels seen in the US. According to the Treasury, venture capital funding for small businesses in the US was £36bn last year, compared with £1.6bn in the UK.

The size of UK venture capital funds outstripped the rest of Europe. But Mr Robinson said that "we don't need to kid ourselves" the situation was rosy. He said more investment in the UK needed to be directed at the high technology start-up sectors. US venture capitalists invested around 70 per cent in high technology sectors, while the UK's sector only received around 10 per cent.

NORTHERN IRELAND CONSERVATIVES ACCUSE GOVERNMENT OF GOING BACK ON 'UNEQUIVOCAL ASSURANCES'

Riot police block a main road in Portadown, Northern Ireland, at the weekend, after disturbances which followed a Loyalist Orange Order march — Press Association

Pressure intensifies over arms handover

By Liam Halligan, Political Correspondent

Pressure on the government over controversial arms handovers in Northern Ireland increased yesterday as the opposition Conserva*tives said Tony Blair, the UK* prime minister, gave "unequivocal assurances" that giving up weapons would be a precondition of the paramilitaries sitting on the executive of the region's proposed assembly.

Andrew Mackay, Northern Ireland spokesman for the Conservatives, said Mr Blair's handwritten pledges – published during the recent referendum campaign *for the approval of the peace* agreement – had convinced many wavering unionists to support the deal.

"Many of them finally decided to vote Yes when he gave unequivocal assurances that decommissioning would be integrated into the legislation [implementing the agreement], with specific reference to holding ministerial office," he said.

Mr Mackay said it would be "a tragedy" if the assurances were not in the forthcoming bill, warning it would lead to the election of "more unhelpful politicians" when assembly polls are *held on June 25.*

His statement contradicts Mo Mowlam, chief Northern Ireland minister in the UK government, who has said paramilitaries holding executive office must be "signed up to decommissioning", rather than insisting on weapon handovers as a prerequisite of holding office.

Mr Blair returns to Northern Ireland today in the latest phase of his efforts to generate support for the agreement. Half an hour has been set aside for each of the parties involved in the negotiations – as well as the hardline Democratic Union*ists and UK Unionists, which* both walked out last summer and campaigned for a No vote.

Peter Robinson, DUP deputy leader, warned Mr Blair *it was "time to pay up"*, asserting the prime minister had indicated "a clear linkage" between prisoner releases and decommissioning and Sinn Féin, the political wing of the Irish Republican Army, sitting on the executive.

"With stunts like handwritten promises, many unionists were encouraged to vote for the deal," he said.

Ms Mowlam told the *House of Commons support* for the Good Friday agreement – which received 71 per cent backing – was an "emphatic endorsement from all sections of the community". *She said a bill on* prison releases would "shortly" be introduced to parliament, to become law by the end of the month.

A second bill, enacting the assembly, will then be brought forward with the aim of transferring powers to the new assembly.

Editorial Comment, Page 15

Mercedes warns parts suppliers

By Juliette Jowit

Mercedes-Benz will today warn UK automotive components manufacturers they must become more customer friendly and proactive or risk losing business.

The German company has increased purchasing in the UK to £200m ($334m) annually, but still only uses 60 of the country's 2,400 components manufacturers, according to Ray Smith, UK purchasing manager. "If they do certain things they can have a better chance of gaining more business," he said.

Among Mr Smith's criticisms are submitting bids late or not to specification, and inward-looking cultures, which may mean, for example, not employing German speakers. He will tell a meeting of suppliers in Birmingham, in central England, they need to be better organised, monitor quality more carefully and adapt more readily to future models and improved products.

"Most companies will be spending time on one of these points, but it seems to me it's a matter of covering all of them in one proactive approach," said Mr Smith, who believes Mercedes-Benz's annual UK purchasing could reach £300m or more if supplies improve.

Gary Turner, of Coopers & Lybrand's automotive industry unit, which is organising the seminar, said suppliers often had quality products but their way of doing business was at fault.

Several big automotive manufacturers have warned that UK components purchasing could fall because the strong pound has pushed up export prices.

Mr Turner believes currency fluctuations are less important in long-term supply decisions than good supplier relations.

Channel tunnel rail link plan to be confirmed

By Jonathan Ford and George Parker

John Prescott, the deputy prime minister, is tomorrow expected to approve a rescue package for the £5.4bn ($9bn) high speed rail link between London and the Channel tunnel.

Mr Prescott is scheduled to make a statement in the House of Commons and contracts could be signed tonight.

Under the deal, London & Continental Railways, the project's troubled sponsor, would receive financial backing from Railtrack, the rail infrastructure group, to build the link.

The government's additional subsidy is expected to be about £700m, compared with the £1.2bn Mr Prescott rejected when LCR's first attempt to build the link collapsed in January. The government has already agreed to contribute £1.8bn.

The Eurostar high speed train service would be operated either by Richard Branson's Virgin group or a consortium led by National Express, the bus operator, and British Airways.

The National Express-BA consortium has received backing from SNCF and SNCB, the national rail companies that operate the French and Belgian ends of Eurostar.

The competition between the two potential operators is said to be still too close to call but a decision is expected to come tonight.

BA and National Express have been forced to reorganise their bid to side-step possible challenges to the deal from the UK and European competition authorities.

The move follows concern that the bid would be challenged because of BA's strong position in the London-Paris air travel market, which would have been unacceptable to LCR and the government.

Under the original proposal, BA and National Express would have each taken 40 per cent stakes in Eurostar. The revised plan envisages a two-stage approach, whereby BA's stake would initially be cut to 10 per cent, with the company relinquishing any management involvement in Eurostar.

But if the competition authorities approve the deal, the share structure would be restructured so that BA and National Express ended up with about 35 per cent each, while SNCF would hold 20 per cent and SNCB 10 per cent.

Under the plan, LCR would build the link in stages. Railtrack would agree to buy the first phase - from the Channel tunnel to Ebbsfleet in north Kent - at a price reflecting the cost of construction.

NEWS DIGEST

BENZENE POLLUTION

Soft drinks sector sees 2m cans taken off market

More than 2m cans of soft drink and thousands of bottles of carbonated mineral water were taken out of the UK market yesterday after being contaminated by benzene, the carcinogen.

Results from further tests on drinks made with carbon dioxide from a factory near Bristol, *in south-west England, will* arrive at manufacturers this morning. They could lead to the removal of millions more drinks and mineral waters from supermarket shelves across the country. The alarm – reminiscent of the 1990 scare that led to the destruction of 160m bottles of Perrier water – follows routine tests last week that discovered benzene *levels of up to 20 parts per billion in a* batch of a mineral water. This is twice the World Health Organisation's recommended safety level.

Britvic, the division of Bass that makes and distributes Pepsi and 7-Up in the UK, is removing 2.5m 330ml cans of soft drink – about two days' worth of production – from the *supply chain. Earlier, retailers* Boots, J Sainsbury and Tesco ordered the removal of Brecon Carreg sparkling water from their stores, although Sainsbury pointed out that the brand was available only in 12 stores in south Wales. Bottles of Malvern sparkling water – a Cadbury Schweppes brand – were also taken off the market.

The British Soft Drinks Association insisted the discovery did not raise public health concerns. The agriculture ministry said it was in touch with the drinks industry and was satisfied appropriate precautions were being taken. **David Blackwell**

POLITICS

Conservatives unveil reshuffle

William Hague, leader of the opposition Conservative party, yesterday sought to breathe life into his party with a far-reaching reshuffle. A host of rightwingers were promoted and Peter Lilley, shadow chancellor of the exchequer, was moved out of the political front line. Mr Hague decided drastic surgery was needed on a frontbench team which barely registered in the public consciousness. He brought in five new faces to the shadow cabinet in an attempt to sharpen the party's attack on government policy, particularly on the key areas of health and education. Peter Lilley, blamed by some Conservatives for failing to land many blows on Gordon Brown, the chancellor of the exchequer, has been given a backroom job with the new title of deputy leader, heading the party's comprehensive policy review. **George Parker**

'MAD COW' DISEASE

Agriculture ministry defended

Government cost-cutting while details of BSE – mad cow disease – were emerging did not impede the agriculture ministry's ability to carry out its duties, the inquiry into the outbreak was told yesterday. Sir Michael Franklin, permanent secretary *at the ministry until October 1987, made the claim in evidence* to the inquiry, which is examining the handling of BSE and the linked new variant of Creutzfeldt Jakob disease, a fatal human brain condition.

He said he did not want to appear complacent in view of the tragedies, but said: "I don't think I can put my finger on a particular organisation or weakness that made the problem worse."

The inquiry re-opened yesterday to take evidence from government scientists and administrators. It heard that shortly after ministers were told of the problem on June 5 1987, they were told to avoid unduly alarmist publicity until scientists knew more about the disease. **Gautam Malkani**

CITY OF LONDON

Banker hits at new regulator

A leading investment banker warned yesterday that the Financial Services Authority, the new super-regulator, was in danger of offering "the worst of all possible worlds" with its proposals for the City of London. Hans de Gier, chief executive of SBC Warburg Dillon Read, the investment bank, also criticised the existing system of regulation for appearing "arbitrary" and called for greater transparency and certainty. He said consultation papers produced by the FSA on its proposals suggested a combination of "high-level principles interpreted and applied separately from detailed rules designed on a 'one size fits all' basis". Such a mixture would fail to offer any advantages, he said. **Jane Martinson**

WATERWAYS

Canal franchises considered

The government is considering selling franchises to private sector operators in a bid to revitalise 2,000 miles of ageing British canals and waterways. Operators would be expected to manage and fund improvements to sections of waterways in return for being allowed to develop along part of the route. The scheme, one of three possible options for the nationalised British Waterways, would be similar to proposals by John Prescott, deputy prime minister, for the privatisation of London Underground. The Department of Environment Transport and the Regions, headed by Mr Prescott, said yesterday franchising was one choice being considered. Other options were to leave British Waterways under state control or allow it to become a charitable trust so it could raise private-sector loans. **Andrew Taylor**

Battle rages for share of the home loan market

Fierce competition has prompted fears about lending practices and poor deals, reports **Christopher Brown-Humes**

War has broken out in the mortgage market – and the winners are the building societies – mutually owned savings institutions. That, at least, is the message that society executives – meeting for their annual conference at Bournemouth on the southern English coast last week – were anxious to convey.

They are taking a far big*ger share* of the market than their size would suggest, and the losers are invariably their former brethren – the societies whose members voted to ditch their mutual status to become banks.

In particular, Halifax and Abbey National, the two biggest mortgage lenders, are struggling to win enough new mortgage business to bring them anywhere near their traditional market share.

But the intensifying competition has led to some lenders fearing that "unfair" mortgage lending will soon catch the attention of politicians and the Office of Fair Trading.

The plethora of discounts and "cashbacks" available on new mortgages means lenders will not make profits on the business until well into the life of the loan. The discounts mean existing borrowers invariably subsidise new ones and lenders are being forced to apply redemption penalties extending well beyond the discount term.

Christopher Rodrigues, chief executive of Bradford & Bingley building society, says: "Some lenders either seem to have access to free funds or an interesting calculator that I would like to buy. They will not make money in the lifetime of some of these deals."

Other signs of increased competition are the higher procuration fees being paid – fees paid by lenders to intermediaries for introduced business – and a rise in under-the-counter deals, in which lenders offer better-than-advertised rates to certain customers to stop them defecting.

Meanwhile, some lenders are offering mortgages equal to the house purchase price, rather than requiring deposits. Mortgages are also being granted on higher salary multiples than previously. Some lenders, such as Woolwich, are dipping their toes into the non-status market of credit-impaired customers, which is not an area the main lenders have traditionally entered.

The worry is that lenders are being beguiled by the current benign market conditions to the point where credit quality could soon deteriorate. The nightmare scenario would be any re-run of the late 1980s boom which produced the early 1990s housing market bust.

Brian Davis, chief executive of Nationwide building society, pointedly warned last week: "It is at this point in the economic cycle in the past that mistakes have been made, as memories of the previous recession recede and there is no evidence yet of the next."

Competition is rising because house sales are falling, new companies are entering the market and some banks have begun to chase business more aggressively now that the distractions of conversion are over. "Too much capital is chasing too few assets," says Mark Abbott, chief executive of Future Mortgages, a specialist lender.

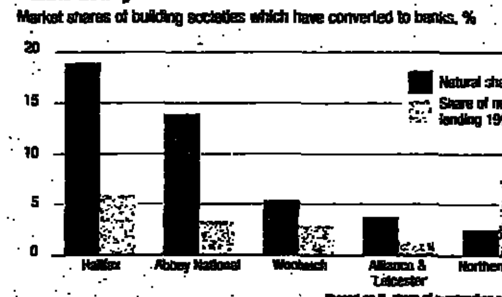
Nationwide reported last week that UK residential property sales in the first *four months were 6 per cent* below their level a year ago. This helps explain why remortgaging has increased sharply – it accounts for some 25 per cent of lending – even though margins on this type of business are lower.

So far, however, lenders' margins are easing back, rather than plunging. That could change if the building societies-turned-banks decided to launch a full scale price war to regain market share. The question is, will they? The building societies believe the banks dare not do anything that would hurt profits and dividends to their shareholders.

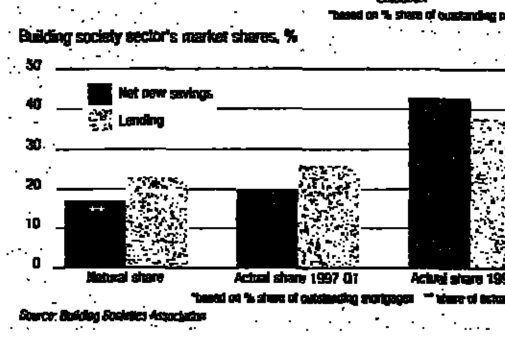
They argue they have an enduring advantage over the banks because they do not have to pay dividends and can therefore give their customers better deals. Halifax, which converted to a bank last year, retorts that the building societies cannot sustain their rates indefinitely.

Banks at bay

Market shares of building societies which have converted to banks, %



Building society sector's market shares, %



Source: Building Societies Association

Margin between interest received and interest paid (percentage points)

Banks	
Halifax	2.48
Abbey National	2.28
Woolwich	2.22
Alliance & Leicester	2.03
Northern Rock	1.88
Building societies	
Bradford & Bingley	1.22
Yorkshire	1.20
Coventry	1.20
Chelsea	1.65
Leeds & Holbeck	1.55
Skipton	1.58

For the moment, though, the building societies have the upper hand. Indeed, a fundamental restructuring of the market is under way, with the new banks increasingly talking of diversification away from mortgages to more profitable areas of business, such as long-term savings.

John Goodfellow, chief executive of Skipton building society, says: "We have been in existence for 148 years. For 147 of them Halifax could have put us out of business. They can't now."

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TECHNOLOGY GENETIC ENGINEERING

Jack could soon get his giant beanstalk

Victoria Griffith on the genetically engineered garden plants coming on to the market

Have you ever wished the grass on your lawn would grow more slowly? That orchids were as easy to cultivate as weeds? That carnations came in polka dots, that geraniums needed as little water as cacti, or that *tulips* smelt as sweet as roses?

Through genetic engineering, such fanciful desires may soon become reality. The first genetically engineered flower product – a mauve carnation by Florigene – made its debut in Australian flower shops last year. Ball Horticulture Company of the US has developed a scented geranium for home gardeners, although problems with shipping have held up marketing of the plant.

Sanford Scientific, another US company, says it is close to completing genetic research on disease-resistant poinsettia and fragrant geraniums. Kirin and Sapporo, the big Japanese groups best known for their beer, are working on orchids that are easier to cultivate. The Scotts Company, Sanford's parent, says it hopes to launch in the next few years a slower-growing transgenic grass, aimed at consumers who would prefer to mow their lawn less frequently.

Genetic commercial crops such as corn, soybeans and tomatoes have already become commonplace. A few groups – such as Monsanto and Harris Moran Seed Company, a subsidiary of the French company Limagrain – are even thinking of marketing such products for the home vegetable and fruit garden. In the world of decorative plants, genetic engineering has been practised for decades through traditional cross-breeding methods, but using modern transgenic concepts holds special challenges.

It can be difficult, for instance, to pinpoint which plants and traits gardeners want. Seed companies know pansies, petunias and *marigolds* are *best-sellers* in North America but that does not mean transgenic versions of the same plants would be equally popular.

"Home gardeners are probably planting these species year after year because they are easy to grow," says John Neal, vice-president of technology for Scotts. "But they may be sick to death of them. If we could offer them easier-to-grow roses or orchids, that's when we might hit the jackpot."

Even if consumer desires can be determined, seed companies may not know the genes responsible for the *desired traits*. "Our market research shows people want grass with drought and shade resistance," says Mr Neal.

"But I don't know the gene – or more likely, group of genes – that controls those mechanisms. We know more about slowing growth, so that is the product we are going after first."

The market for horticultural plants is extremely diffuse. While the retail value of ornamental plants is $3bn in the US alone, according to the University of Hawaii, sales are spread widely over a large number of plants.

Companies sell $1.5bn in corn seed every year to US farmers, but the entire annual spending on petunia seeds, for example, adds up to just a few million dollars.

Because of the limited amount of money available for research on any one species, scientists are forced to pick up clues from the market for transgenic commercial crops.

The genes horticulture companies know most about are those for resistance to diseases and insects, a quality highly valued by farmers. The gene that causes plants to produce Bt bacteria, which secretes a substance poisonous to the European corn borer caterpillar, may yield important clues to insect resistance in home plants, for instance. And because the petunia and tomato are close genetic relatives, information about one may help research on the other.

Genetic engineering for ornamental plants follows the same scientific principles as for commercial crops. Scientists discover the gene responsible for a certain trait, then try to insert it *into the plant*. It is not a simple surgicalprocess. Plants are pre-conditioned to reject any DNA that looks foreign.

The trick is to fool the plant into thinking the new DNA is part of its natural structure. That involves a give-and-take process in which researchers try to get rid of DNA "junk". The simpler the sequence, the better the chances the plant will accept it. The danger in whittling DNA down is that the desired trait will be inadvertently edited out as well. Scientists use various methods to sort out the essential bits of genetic information from the truly discardable.

In spite of the challenges, modern methods do have advantages over traditional cross-breeding, which often produces one desirable trait at the expense of another. Transgenics allows scientists to combine characteristics. John Sanford, founder of Sanford Scientific, developed scented geranium by inserting genes for shape into existing – but ugly – wild scented geraniums.

Introducing transgenic species to home gardens, however, may present an ecological threat. The US Department of Agriculture says concern about genes escaping into the environment are legitimate, if exaggerated. Scientists insist *such worries are groundless*. "People say you might put genes for fast growth into roses, but the genes will escape to the weeds and pretty soon you've got monster weeds enveloping the country," says Tom Monaco, professor at North Carolina State University. "That's silly. There's little evidence that will happen."

In fact, seed companies hope to promote genetically-engineered plants as environment-friendly. Mycogen, a pesticide group, is working on insect and disease-resistant plants to reduce the amount of harmful pesticides gardeners use. "I think we could all feel better as human beings if we didn't have to use so many pesticides," says Paul Zorner, head of product *development for the group*. "Transgenics gives us a way to have our cake and eat it too."

Mixed feelings about transgenic plants are understandable. Our folklore is full of stories of magic plants whose growth gets out of hand – think of the fairy tale Jack and the Beanstalk, or the story *James and the Giant Peach*, by Roald Dahl. Yet our desire to fill our gardens effortlessly with beautiful, fragrant flowers is powerful enough to hold the promise of sweet rewards for companies that pursue the dream through genetic engineering. We can expect to see transgenic plants in the catalogues soon.

'Gardeners are probably planting species year after year because they are easy to grow. But they may be sick to death of them'

Flower power: look out for genetically engineered plants, which will be coming to garden centres soon Kobal

IT INTERNET BROADCASTS

Tap into the sound of the superhighway

Geof Wheelwright on a device that enables web users to download and play back 'netcast' audio

The world wide web has become a great place to listen to music, executive speeches, news broadcasts and even talking books – but many people feel silly sitting in front of their computers to hear them. It is, of course, also inconvenient to remain rooted to the spot.

But what if you could listen to such entertainment without being tied to your desk? If you could listen while you were taking the train to work, for example?

Simply using a tape recorder would be one way to achieve this, but it would not give you the same quality as the original file from the internet. You would also have to record the entire file in real time first, staying connected to the internet for the duration of the broadcast.

Enter the Audible MobilePlayer – a $199 handheld, battery-operated *device, weighing less than* 3.5 ounces and developed by US-based Audible to allow the storage and playback of up to two hours of "netcast" audio.

You start by connecting the device to your PC to download web-based audio broadcasts. You can either listen to them on headphones or, with an adapter, plug the Audible MobilePlayer into your car's cassette player and listen to it through the car speakers.

Audible says it takes as little as five minutes to download one hour of audio into the device via a 56 kbps (kilobits per second) connection.

The desktop PC portion of its software also enables audio programmes to be downloaded automatically – for example, when you *are asleep and your* phone line is not being used.

As well as using the MobilePlayer to carry *portable copies of internet* broadcasts, the company believes customers will be prepared to buy "audio books" over the internet for use with the device.

It is offering spoken books available for download from the internet at prices it says are far lower than those for *traditional books on tape*. The Audible MobilePlayer package includes docking station, battery, power supply, headphones, serial cable, cassette adapter and leather carrying pouch.

The Audible MobilePlayer

The device is available only from Audible's web site (*www.audible.com*) at the moment – and for users outside *North America there* is a catch. The company is not shipping outside the US and Canada, and if you live elsewhere you will have to get someone with a US address and credit card to buy it for you.

Audible, whose backers include Intel, Compaq Computer and AT&T Ventures, says it hopes to be able to rectify this problem soon, but it adds that it is struggling to keep up with demand for the MobilePlayer from customers in North America.

FT GUIDE TO 25th ANNIVERSARY OF BARCODES

Reading between the lines

Widely used by retailers, barcodes will soon become part of consumers' daily routine. **Peggy Hollinger** reports

Barcodes? What can *possibly be interesting* about barcodes?
You would be surprised. For example, did you know that some of the earliest barcodes used in Europe were not the striped rectangles we have learned to ignore on our daily purchases? They were bull's eyes – a design used by Migros, the Swiss retailer, which made it easier to scan the product from any direction. The first barcode in the UK appeared on a box of Melrose tea bags in 1978. And some 4bn items are scanned every day in the US alone.

How did these things come about?
Barcodes were invented 25 years ago this spring by International Business Machines at the behest of US supermarket groups who were looking to cut costs. American readers will remember the days when bagboys used to pack groceries in supermarkets and then carry the bags to the car. Well, the barcode and scanner meant the cashier could both work the till and pack the bags. That left the customer carrying the bag – but halved labour costs on the till. It also put an end to the tedious business of sticking price tags on everything.

So the barcode has been an unqualified success?
On the contrary. When introduced in the US consumers were deeply suspicious. They thought retailers were charging higher prices on the scanner than they advertised on the shelves. Several states introduced regulations requiring cashiers to announce every price as it went through the scanner. Eventually the bright sparks at ICL, which manufactures scanning equipment, invented a talking scanner to take the burden off cashiers' vocal chords.

What exactly does the barcode do?
See how the lines are of different widths? The lines to the left *tell the scanner* the country of origin, the manufacturer's identity and sometimes product category, such as book or newspaper. *Those on the right* stand for the manufacturer's product number for a particular item.

But where is the price? Don't they carry price information?
Nope. The scanner's laser (which covers about 10,000 *inches a second*) simply reads the width of the lines, converts the pattern to a number and sends the figure to a database. The database *then matches* the number to a product file that includes any information the retailer wants, such as price, size, colour, etc. The data are flashed back to the till and added to the customer's bill.

If barcodes have been around for so long, surely they must be outdated by now?
Not really. There are experiments with radio frequency tags, which might eventually mean no unloading at the checkout. *This would obviously be* welcome news to hardworked cashiers who on average swipe between 2 tonnes and 3 tonnes of goods per shift across their scanners. But radio tags are still too expensive to use on commodity products. The barcode has the advantage that it is almost free, since the packaging has to be printed anyway. And the barcode is moving with the times. Soon it will be able to store photographic information.

How on earth is that possible?
The traditional barcode can be read at any point from top to bottom and it will hold the same information. But some companies are developing two-dimensional codes where the widths will be slightly different at one end. That means much more information can be stored, allowing pictures to be used for the first time. Think what benefits this has for the security industry. The next time someone tries to use your credit card they'll have to have had plastic surgery to get away with it.

OK. But why should it *matter to me*?
Simply because barcodes are almost certain to become part of your daily routine as a modern consumer. So far, they have been used largely for the benefit of retailers and manufacturers by, for example, letting them know what products have been sold from their inventories. Soon, however, you may find yourself using a pen-sized combination telephone, personal computer, and scanner to capture codes on products and transfer the order to a retailer.

It sounds brilliant! Where can I get one?
You may have to wait a few years for that sort of technology, but supermarket groups such as Safeway in the UK and Delhaize of Belgium already allow customers to do their own scanning in store. It is not inconceivable that they will allow their most loyal customers to take scanners home to scan products as they use them. The scanners will then be able to send in orders electronically. You may never have to go grocery shopping again.

But remember: barcodes were invented for manufacturers and retailers – not customers. The more information they collect, the more likely it is that they will be able to influence your purchasing.

BUSINESS AND THE LAW

PRODUCT LIABILITY EUROPE

Consumer protection downside

Industries are alarmed by the extension of a product directive, says **Robert Rice**

The European Commission's decision to extend the 1985 European product liability directive in the light of the BSE crisis to cover primary agricultural products and game has proved relatively uncontroversial.

However, in considering the Commission's proposal, the European Parliament's Committee on the Environment, Public Health and Consumer Protection has proposed several changes to the directive which are causing great concern within the insurance and manufacturing industries.

UNICE, the European employers' organisation says the committee's general objective of strengthening consumer protection is not sufficient justification for radically extending the scope of the Commission's initial proposal on agricultural products and game particularly considering that when the Commission examined the directive in 1995 it saw no reason to amend it.

In a letter last month to Dagmar Roth-Behrendt, the rapporteur of the environment, public health and consumer protection committee, Zygmunt Tyszkiewicz, UNICE's secretary-general, said the changes proposed by the committee would result in substantially increased costs and particularly insurance costs in certain high-risk industry sectors: would inhibit innovation: reduce European competitiveness; adversely affect employment; put the future of small and medium-sized enterprises at risk; and unnecessarily reduce consumer choice.

According to Christopher Hodges, a partner of UK law firm, Cameron McKenna, and one of the UK's leading product liability defence lawyers, the Commission is believed not to be in favour of any of the amendments proposed by Parliament's committee.

But as the rules provide for a period of conciliation involving the Council of Ministers where the Commission and the Parliament disagree over legislative proposals, industry cannot afford to ignore the issue, he says.

"The outcome might be very uncertain. It would certainly be worthwhile for industry to take these proposals extremely seriously," he said.

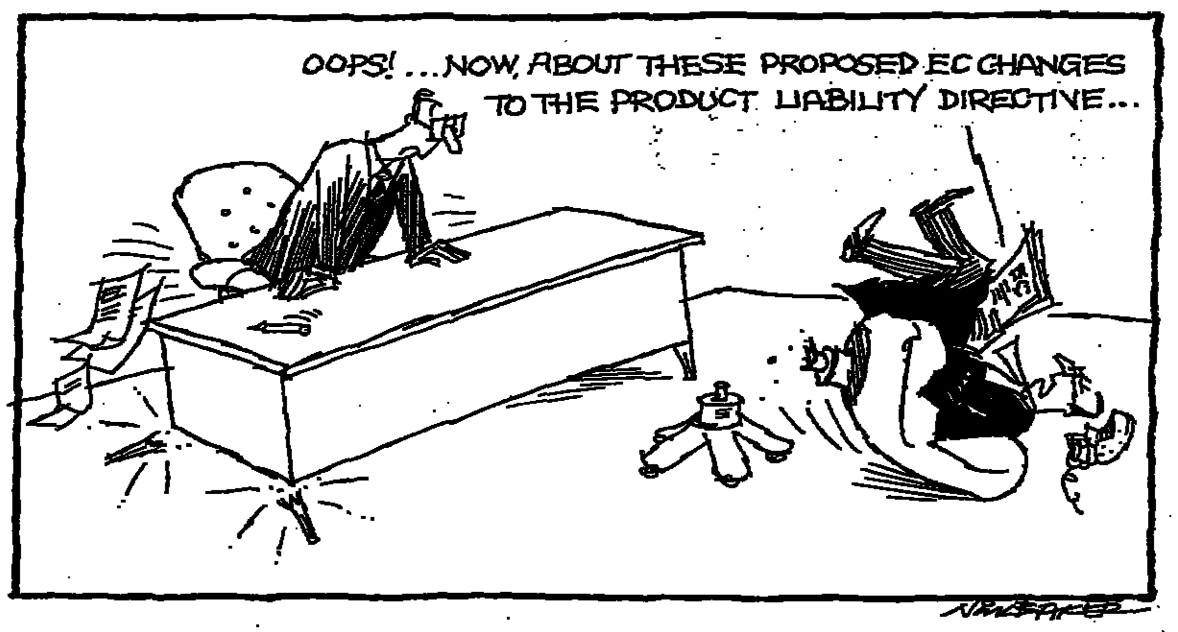
The purpose of the directive was to harmonise the rules across the European Union, on compensating people injured by defective products. Since it was adopted in 1985, however, there have been several changes in EU law, such as the incorporation of consumer protection and health protection into the treaties as tasks to be undertaken by the EU, which, says the Parliament's committee, justify the changes it is proposing.

The first change relates to the burden of proof. *Although the directive* imposes liability without fault, the injured person has to prove the damage, the defect and a causal relationship between the two.

The committee says normally consumers have little difficulty proving damage, but find proving the defect and the causal relationship more difficult.

"Consumers rarely have the financial and technical means required to prove a defect, especially in the case of technically complex products, such as chemical products or medicaments. The producer has far greater resources available to prove that his products are not defective," it says.

The committee proposes that where the existence of a defect and the causal link between the defect and damage can be inferred, it should be enough for consumers to prove simply that damage occurred. It would be up to the manufacturer to produce evidence to the contrary.



'The outcome might be very uncertain. It would certainly be worthwhile for industry to take these proposals extremely seriously'

UNICE says reversing the burden of proof would be an unacceptable departure from the regime set out in 1985. The manufacturer would have to prove that a product which was not even in its possession was not defective – a regime which does not exist in the US. The change would also affect all the national product liability laws of the states when there is no evidence of significant problems with burden of proof arrangements.

The second proposal is the abolition of the "development risks defence". That allows manufacturers to escape liability for a defective product because the "state of scientific or technical knowledge at the time the product was put on the market was not such as to make it possible to discover the existence of a defect."

The committee says this transfers to consumers all the risks connected with the development and introduction of new products. Logically, producers which enjoy the profits of putting a successful innovative product on the market, should bear the risks, it says.

UNICE responds that it has always opposed liability for development risks because those risks are per se unknown and almost impossible to insure. The additional costs entailed in covering unforeseeable risks would act as a significant disincentive for European firms to innovate.

The third change is to extend liability to cover mental injury. At the moment the directive speaks only of material and "physical injury". The committee says the EU's responsibility for safeguarding consumers' health is a strong argument for including mental illness caused by defective products within the directive's scope.

UNICE says there is no justification for amending the directive on this point. In severalstates, Germany, for example, mental injury is covered by the way the directive has been transposed into national law. The employers' organisation argues that the product liability laws of other states should be tested first to determine whether they too already cover mental damage before the step of amending the directive is taken.

The remaining changes refer to abolition of the Ecu500 lower damages threshold, the Ecu70m cap on total damages and changes to the limitation periods within which claims must be brought.

Claims have to be brought within three years of the consumer becoming aware of the damage or defect, and all rights to claim are extinguished 10 years after the product was put into circulation. The committee wants the limitation period extended to five years and the 10 year block on claims removed. With medicines and foodstuffs it can take many years for defects to emerge and for causes of damage to be established.

UNICE says that if the threshold for damage were deleted, insurance costs would rise. The upper limit on compensation has never been reached, so there is no obvious need to remove the cap, in addition to which, national laws cover both small claims below Ecu500 and most do not have a cap on total damages.

The limitation periods are designed to ensure that after a given period of time the risk of court proceedings is removed. As the directive imposes strict no-fault liability on manufacturers, it is only fair, UNICE argues, that manufacturers can be sure that after 10 years they will no longer be liable if their product has not caused any damage in that period.

Christopher Hodges said: "These proposed amendments go right to the heart of the balance achieved when the directive was negotiated in 1985. That balance would be completely upset if any or all of the amendments were adopted. There would be the spectre of increased litigation and increased insurance costs. It seems inevitable that there will be a major argument over these proposals."

The proposed changes are due to be considered by the European Parliament's Legal Affairs Committee this week. According to UNICE, that committee is likely to ask the Commission to make an economic impact study before deciding whether to support the amendments.

A Legal Affairs Committee vote is expected towards the end of June, but the Parliament is not expected to take a plenary vote before September.

Principles on appeals

European court

In two connected appeals, the European Court of Justice laid down the general principles governing the scope of its powers of review when hearing appeals from the Court of First Instance.

Two UK tractor companies, John Deere and New Holland Ford, had appealed against the CFI's judgment upholding a decision of the European Commission that the UK Agricultural Tractor Exchange agreement was unlawful as it infringed European competition rules.

Under the agreement, data relating to tractor registrations was shared between competing manufacturers and/or importers.

The Commission found that the exchange of detailed data allowed each competitor's sales to be identified. It said the agreement had the effect of restricting competition by increasing transparency on a highly concentrated market and by raising the barriers to entry.

The parties to the agreement applied to have the *Commission's decision* annulled by the CFI. Their applications were rejected and they appealed to the European Court.

Before deciding the points raised on the appeals, the Court recalled general principles applicable to appeals and in particular to the extent of its appellate jurisdiction.

First, the relevant empowering provisions of the Treaty of Rome and the Court's statute made it clear that appeals were to be limited to points of law which had to be based on the grounds of lack of competence of the junior court, breach of procedure which adversely affected the appellant's interests, or infringement of European law.

It was clear that an appeal had to indicate precisely the contested elements of the judgment which the appellants sought to have set aside, as well as the legal arguments advanced in support of the appeal.

That requirement was not satisfied by an appeal confined to repeating or reproducing word for word the pleas in law and the arguments previously submitted to the CFI, including those based on facts expressly rejected by the lower court.

Insofar as an appeal did not contain any arguments specifically contesting the judgment appealed against, it amounted to no more than a request for re-examination of the application submitted to the lower court which the ECJ did not have jurisdiction to undertake.

It was also clear that an appeal could only be based on grounds relating to the infringement of rules of law, to the exclusion of any appraisal of the facts.

The CFI had exclusive jurisdiction to establish the facts, except where the substantive inaccuracy of those findings was apparent from the documents, and to assess those facts.

The senior court therefore had no jurisdiction to establish the facts nor, in principle, to examine the evidence which the CFI accepted in *support of those facts.*

Provided the evidence had been properly obtained and the general principles of law and the rules of procedure in relation to the burden of proof and the taking of evidence had been observed, it was for the CFI alone to assess the value which should have been attached to the evidence.

The appraisal by the CFI of the evidence did not constitute a point of law subject to review by the ECJ.

Applying the principles set, many of the pleas advanced by the appellants were inadmissible. The others were unfounded and the appeal was dismissed.

C-7/95P and C-8/95P: John Deere Limited and New Holland Ford Ltd v Commission, ECJ 5CH, May 28 1998.

BRICK COURT CHAMBERS, BRUSSELS

PEOPLE ON THE MOVE

Gold Fields searches for new chairman

Gold Fields, the South African company formed last year to consolidate the gold mining interests of GFSA and Gencor, has started an international search for a new executive chairman.

Gold Fields said it believed *that the company's future* strategy would be best served if an individual with "significant international experience" could be appointed. An international headhunter has been taken on to identify potential candidates to succeed **Brian Gilbertson**, 54.

Gilbertson, who is also chairman and chief executive officer of Billiton, the mining *group, said when the* company was formed last November *that he wanted to* end his tenure as chairman during 1998.

He said: "Normally these searches are conducted discreetly but we decided to go public on this occasion to *ensure that we have the* widest possible choice of potential candidates.

"This is also indicative of the new thinking within the company and the way in which people are responding to the new challenges."

Neither Alan Wright, the *deputy chairman of Gold* Fields and chief executive officer of GFSA, nor Richard Robinson, the incumbent chief executive of Gold Fields, want to be considered for the post. Robinson, 45, was appointed director of the gold division of GFSA in July last year and in *October was designated* as chief executive of Gold Fields to take the company through the first stage of the restructuring.

Three weeks ago Robinson recommended that Gilbertson's successor should have significant international *experience and should take* on substantial executive responsibilities. He subsequently agreed to stand down as chief executive officer to enable the directors to offer a clear field to potential candidates.

Gold Fields said that in the *meantime it was continuing to* focus on its key priority of improving the efficiency of its South African gold mining operations and that Tom Dale, currently executive director, operations, would become managing director with effect from June 1, 1998. The company said it had also appointed a group of non-executive directors with wide international and industry experience to support the *management.*

Lisa Wood

Directors retire at Rio Tinto

Rio Tinto, the world's biggest mining group, is losing two directors through retirement and has appointed a new one.

Lord Holme, the Liberal Democrat peer, and **John Uhrig**, chairman of Rio Tinto Limited, the Australian arm of the group, are leaving and *Oscar Groeneveld is joining* the board.

Uhrig *was chairman of CRA,* the Australian natural resources group, before it was effectively merged with RTZ in 1995 to form Rio Tinto. He was one of the main proponents of the merger and promoted *the idea that it* could be done via a dual listing for the UK and Australian entities.

Bob Wilson, chairman of Rio Tinto, will also take on the chairmanship of Rio Tinto Limited but the group promises to appoint another *Australian based* non-executive director later this year.

Lord Holme joined the Rio board three years ago as director responsible for external affairs and human resources. He reaches retirement age at the end of *June and will leave the board.*

Groeneveld is a mining engineer who joined Rio in 1975. At present he is head of technology with responsibility for the group's technical, health, safety and environmental engineering and research and development activities.

Kenneth Gooding

Baldassarre joins NatWest

Even though the Italian language lacks a ready equivalent for the concept of "rainmaker", perhaps because networking is a way of life not a speciality, Greenwich NatWest, the global debt markets arm of National Westminster Bank, has caught a prize one.

Antonio Baldassarre, *president of the supervisory* commission for the Milan stock exchange, is to be chairman of Greenwich NatWest's Italian executive committee. He is also a professor of constitutional law and former president of Italy's *constitutional court. One of* Baldassarre's roles will be to develop the bank's relationship with Italian clients. He will work closely with John Magliana, a Greenwich NatWest managing director and NatWest's general manager in Italy.

Magliana said the firm had "searched for a pre-eminent person with in-depth knowledge of Italy and its *position in the global* economy" and Baldassarre was the *ideal choice.*

Clay Harris

Moving places

● *SANWA BANK has* announced that three former managing directors of BZW/Barclays Capital have joined Sanwa Financial Products (UK). All three have been appointed as executive vice-presidents of SFP (UK), with the brief to build Sanwa's European and Asian operations into a major derivatives force in the global capital markets. Mohammed Syed, 35, was formerly head of derivatives Asia and Japan at Barclays Capital. Constantine Thanassoulas, 45, was formerly global head of derivatives at Barclays Capital and Tejit Bath, 33, was formerly head of derivatives Europe.

● Germany's largest association for independent financial advisers, Berlin-based BUNDESVERBAND FINANZDIENSTLEISTUNGEN, has appointed Steven McAulay as their offshore product consultant. McAulay, a Scot has been working as an independent financial adviser in the UK, German and Dutch markets for 15 years.

● *ING BARINGS has* promoted Richard Johnson to managing director, head of emerging markets *fixed-income sales for the* Americas region. He joined ING Barings' fixed-income sales group in 1994 from Chase Manhattan.

● ABN AMRO has announced that Mathew Welch has joined its Asia Pacific regional headquarters as senior vice-president of strategy and acquisitions. Formerly he was a senior engagement manager with the *international consulting firm,* McKinsey & Co; based out of its Hong Kong and Kuala Lumpur offices, and an *international officer with* HongkongBank. Welch will be based in Singapore.

● CITIBANK has announced the appointment of Michael Kirkwood as country corporate officer for Citibank in the UK. He will also continue in his current role as *market manager for* Citibank's Global Corporate Banking Business in the UK. He succeeds Ian Cormack who has been country corporate officer since 1993 in addition to his broader responsibilities as head of Citibank's Global Investment Industry and chairman of Citibank International. Cormack will in future focus exclusively on the growing demands of the *investment industry.*

● Phil Knights, formerly director of marketing and sales in the SKF Asia Pacific Division, has been appointed new executive director of the division, SKF Asia Pacific Division headquartered in Singapore. Knights succeeds *Gunnar Gremlin, who has* been appointed managing director of SKF Germany. Gremlin also will be responsible co-ordinating certain areas between SKF's European umbrella companies. Gremlin will continue to be a member of SKF's group *management.*

● Business advisers ERNST & YOUNG has appointed Joseph Tanega, 44, a senior associate member of St Anthony's *College Oxford and* former Princeton academic, a director in its business risk consulting practice.

● The SEAGRAM SPIRITS AND WINE GROUP, a unit of The Seagram Company, has promoted Donard Gaynor to senior vice-president finance/chief financial officer.

EXHIBITION THE QUEST FOR ALBION

Royal interest in painting

William Packer on the emergence of a British national school

The Quest for Albion is the rather arch title to a perfectly straightforward and engaging exhibition. Who now, in our unpoetical age, still understands "Albion" to mean "Great Britain"? And where the quest for it comes in is a further puzzle. Visitors expecting a clutch of evocative landscapes, or images of burgeoning nationhood taken from inspiriting episodes in British history, are likely to be disappointed.

The essential subject, however, is simple enough: the emergence of what can properly be termed a British national school in the course of the 18th century, with the foundation of the Royal Academy in 1768, under the active patronage of George III, giving it a particular focus and identity, and the degree to which that development has been registered in the Royal collection.

What emerges quite clearly is that over some four centuries, from the time of Henry VIII to the death of Queen Victoria, successive monarchs had an active interest in what they fancied to be the best of contemporary art: many artists we now count safely among the greatest of old masters were very much alive and painting when our kings and queens first bought their work. If Cromwell's high-principled clearance-sale during the Commonwealth of the collection of Charles I was one of the great cultural crimes against our national patrimony, the loss of all those then recent, modern works of Rubens and Van Dyck is to be regretted quite as much as earlier masterpieces by Titian, Holbein or Veronese.

Tastes change of course, judgment grows cautious, and nerve fails: but while no-one would now set a Landseer or a Frith against Holbein, Van Dyck or even Lely, to say nothing of the contemporaneous competition of Millais or Whistler, Sickert or Sargent, the point remains the same. Queen Victoria, and Prince Albert when he was alive, did at least go along to the Academy and buy major modern pictures, albeit by Leighton, Dyce and Lady Butler. They bought Frith's "Ramsgate Sands – Life at the Seaside" after seeing it at the Summer Show of 1854, and far from being mere genre and anecdote to be condescendingly dismissed, it remains one of the great social documents of the mid-century, a technical tour-de-force and a visual delight.

The show opens not with a royal portrait, but with a monumental half-length of an eminent courtier, Sir Henry Guildford, whom Holbein painted in 1527 during his first stay in London, well before he himself was taken up by the Court. Then comes the cultivated eroticism of Van Dyck's magnificent vision of the sleeping Psyche, somewhat rumpled and *déshabille*, discovered by Cupid beneath the trees. It is the artist's open homage to Titian, but made with all the lively, knowing suavity of the late-1630s and the high baroque. It could be by no-one else. Post-civil war, with two of Lely's ripe "Windsor Beauties" of Charles II's Restoration Court, the Ladies Rochester and Richmond, heavy-eyed and full-bosomed in their silks and satins, the hedonism resumes – while reinforcing the point that the foundations of the British School were laid more upon adopted than on native talent. As for Albion, so far the only intimation of statehood is in the one great state portrait, which dominates the entire gallery, a huge canvas by the Scottish painter, Michael Wright. His Charles II, crowned and robed, is almost medieval in its iconic frontality and richness.

With the 18th century the English come at last into their own, increasingly so with the arrival of the Academy – for all that Allan Ramsay, principal painter to George III at his accession, and David Wilkie, a generation later, were Scotsmen, Benjamin West an American, and Johan Zoffany a German. Hogarth is represented by a rather awkward early conversation piece of the Popple and Ashley families, and Reynolds, who George III couldn't stand, by an ambitious if somewhat histrionic "Death of Dido", the poor Queen's breasts clearly by now more heaved than heaving; and a fine self-portrait.

There are also a charming mid-1740s view of the fashionable evening promenade, along The Mall beside St James's Park, by the otherwise obscure Joseph Nickolls; and a splendid equestrian portrait by Stubbs of the aptly-named Lady Lade – she was, apparently, quite often. Hoppner gives us the actress, Mrs Jordan, prolific mistress of William IV, and Lawrence an extravagant early view of George IV's notorious wife, Caroline, as Princess of Wales, with her much- lamented daughter, Charlotte, who would have been Queen after her father had she lived.

The Victorians are altogether more decorous. The works on the whole are more intimate and charming than arresting, or stir some noble sentiment, such as Lady Butler's Crimean "Roll Call". The only regret is that such positive intentions to support the currency of the British School set out by George III, followed with distinction by his talented if unreliable son and continued at least until the death of Prince Albert, should have faded into the present-giving and odds-and-ends with which, in the early 20th century, this exhibition ends. Where are the Sickerts, the Spencers, Johns, Nashes, Sutherlands, the Weights and Freuds, Hodgkins, Hockneys and Auerbachs? But that is another story.

★

In my review on Saturday of this year's summer show at the Royal Academy, I suggested that Stephen Farthing, one of the three new Academicians elected last week, had not submitted his work to the Academy before. I now realise I was quite mistaken, and unreservedly withdraw the imputation.

The Quest for Albion – Monarchy and the Patronage of British Painting: The Queen's Gallery, Buckingham Palace SW1, until October 11.

A splendid equestrian portrait by George Stubbs: 'Laetitia, Lady Lade'

BALLET IN TOULOUSE

Giselle comes alive

I went to Toulouse last week to see its Ballet du Capitole in *Giselle* – I reported a couple of years ago on a fine staging of Balanchine's *Liebeslieder walzer*, that apotheosis of three-four time with this same ensemble. Nanette Glushak, who directs the troupe, danced for Balanchine, then moved to American Ballet Theatre where among other roles she danced Myrtha, Queen of the Wilis. Her *Giselle* is in essence the old ABT production, but conceived for the broad arena setting of the Halle aux Grains, a grain store which has been beautifully re-built as a theatre and concert hall.

A wide stage, a superb acoustic, are grand advantages. But scenery is a problem – there is no fly-tower for scene changes – and this version of *Giselle* is given an odd look by the designer, Nicolas de Lajartre's decision to indicate location by two vast gold-framed (as in a museum) chunks of medieval masonry. Giselle's simple home looks like the entry to an abbey; Albrecht's traditional Wendy-house has ideas vastly above its station in matter of stone-work. The forest for act II is assorted and framed greenery into which Hilarion stuffs a home-made crucifix.

None of it works. The place is dear old *Folie de Grandeur* rather than Thuringia, and it denies a certain charm to a production which is well-reasoned, and most fetchingly decked out in costumes by Joop Stokvis. The text, slightly edited, is clear. The orchestration, even given some over-juicy rethinking by an unnamed hand, sounds wonderfully well from the splendid Orchestre du Capitole under Claude Cugillière. (The playing of the unnamed viola soloist during the great second act adage was superlatively good. The ecstasies of the dance were there in the music, too.)

The impression given by the ensemble was uniformly good: clean dancing, excellent manners, real involvement in the drama – the tensions among the dancers as Giselle falls into madness almost tangible. The Hilarion, Leon Pronk, was serious in his passion; Myrtha, Evelyne Spagnol, led her vengeful sprites with icy determination. Giselle was the Dutch dancer Marieke Simons, making her debut. It is a fearful experience every decent apprentice ballerina has to go through, and Simons – blonde, charming in technique and style – made a pleasing first sketch. There is an innate lightness in her dancing, something delicate in her way of uttering and shaping movement, that bode well for her future in the role. I thought her a happy find.

Her Albrecht was Minh Pham, born in Hanoi, trained in Kiev, who has a bright edge to his dancing and plenty of technical resource. He makes a nervously impassioned prince, and the progress of the drama is the gradual awakening of his sense of remorse and agonising Romanticism. The role was alive. Indeed, the ballet, despite its alienating decors, was alive – and more truly so than in many more pretentious stagings. Nanette Glushak has done this with a company of 35 dancers. No mean achievement.

Clement Crisp

OPERA IN PARIS THE FIRST WORLD PREMIERE AT THE BASTILLE

Modernist but monolithic

Andrew Clark has reservations about Philippe Fenelon's new work, 'Salammbô'

Almost 10 years after its inauguration, the Bastille has had its first world premiere. The Opéra National, as the Paris Opéra now calls itself, was never going to be a haven of the new or experimental – not with 2,700 seats to sell each night, nor with the reputation for financial profligacy it had until Hugues Gall took control. But with the repertoire comfortably re-stocked and the theatre now enjoying a popularity no one could have predicted five years ago, it was time to dip a toe into the waters of contemporary opera.

And the temperature has been far from cold. Philippe Fénelon's *Salammbô* has enjoyed a healthy run at the box-office. At the performance I attended last week, the audience listened patiently and appreciatively. Francesco Zambello has furnished a serviceable production, and the music is in the dependable hands of Gary Bertini. The result is a *succès d'estime*, which must encourage Gall to try his luck with something less tradition-bound.

Fénelon (b.1952) is one of several middle-generation French composers to have established a reputation independent of the Boulez school. *Salammbô* is his second opera (the first, *Le Chevalier imaginaire*, was given at the Châtelet in 1992). Vaguely based on one of Flaubert's lesser-known novels, it is a symbolic study of the struggle for power in ancient Carthage.

There are parallels with the biblical story of Judith: Salammbo, daughter of the Carthaginian ruler, crosses enemy lines to foil an attack, falls in love with the enemy leader, is rejected by her own people and crushed by political expediency. The plot's originality lies in the way it examines the legitimisation of power through ideology, symbolised here by a mantle covering a stone goddess.

In a programme article, Fénelon and his librettist, Jean-Yves Masson, portray *Salammbô* as a tale of individuals overwhelmed by forces they were instrumental in unleashing. That's not how it appears on stage. The characters never develop beyond archetypes, and what we are left with is a ritualised drama, austerely imposing in outline but unyielding in close-up. It lacks dramatic energy. You can't blame Masson for this: the text is spare and purposeful, the dramaturgy makes sense. The problem is Fénelon's music, which never gets beneath the skin of the protagonists.

The style is approachably atonal: dry, lightly orchestrated and sometimes eerily beautiful, like an extended modernist nocturne with brief electro-acoustical eruptions. The vocal lines are lightly accompanied, gently declamatory and always a devil to pitch, above all in the dense choral set-pieces. No *Sprechgesang*, no ugly scoops or leaps, but acres of "grey" arioso that Germans such as Reimann and Matthus have handled more purposefully.

The cast seems possessed of greater artistry than the material deserves

Faced with 130 minutes of this, you quickly begin to long for a greater variety of pace and colour, for a hint that the composer might have the courage quietly to jettison his modernist formulas and surprise us with some recognisable tonality. That moment never comes, though there's one brief choral echo of Musorgsky (who wrote an unfinished opera on the same subject) and, at the end, a musical apocalypse reminiscent of *Die Soldaten*.

Zambello's staging is too monolithic to break the monotony. Robert Israel's single set – a mish-mash of fractured wall and classical temple – is split on two levels, so that the choral processions are horribly constricted. The only relief comes from Marie-Jeanne Lecca's costumes – an eye-catching fashion show, with a tonne of fantasy thrown into the high priests' hooped shoulder-guards and blue skirts. Zambello marshalls the ensembles dutifully, but fails to personalise the drama.

As so often in such enterprises, the cast seems possessed of greater artistry than the material deserves. Having taken over the title role at short notice, the American soprano Emily Golden gave a performance of immense poise and authority. She may not have the sensuality of Kathryn Harries (whom she replaced), but her singing was beautifully sustained and her French impeccable.

As Hamilcar, Salammbo's brutal father, Gidon Saks served notice of his growing stature, filling the Bastille with his rich bass and commanding the stage with relish. The two rivals for Salammbo's affections were lustily sung by Stephen O'Mara and Patrick Raftery, and Kenneth Cox's High Priest had imposing gravitas. Of the minor characters, LeRoy Villanueva made his mark as the informant Spendius, whose poetic cantilenas reminded me of Iopas in *Les Troyens*.

Large-scale world premieres like this often stand or fall by the quality of conducting – and in this case, Paris had a safe pair of hands. Bertini's beat could not have been clearer or better balanced, nor could the Opéra orchestra and chorus have sounded more confidant. As if to demonstrate that *Salammbô* is not just a token bow to the new, Gall has programmed a revival in 2000, and a Philippe Manoury opera based on Kafka's *The Trial* will be premiered in 2001.

Immense poise and authority: Emily Golden in the title role

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
The Secret Unlocked: German Furniture Opened. Nine pieces dating from the end of the 16th to the end of the 18th century, chosen from the museum's collection of cabinets, and opened to reveal secret compartments and hidden drawers. Includes four pieces by the cabinetmakers Abraham and David Roentgen; to Aug 30

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Siegfried: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 5

BADEN-BADEN

OPERA
International Festival
Tel: 49-7221-780 4166
The Royal Opera, Covent Garden: Die Ägyptische Helena, by R. Strauss. Christian Thielemann conducts a production starring Deborah Voigt in the title role, with Reiner Goldberg and Lyuba Kazarnovskaya, on the opening night of the festival, in the new Festspielhaus; Jun 6

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Wassilij Sinaiskij in works by Stravinsky and Tchaikovsky; Jun 4, 5, 6
● Rundfunk-Sinfonieorchester Berlin: conducted by Alan Gilbert in works by Karmon, Mozart and Copland, with clarinet soloist Sharon Kam; Jun 3

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Lorin Maazel in works by Maazel and Mahler. With cello soloist Rostropovich; Jun 5

DANCE
Deutsche Oper
Tel: 49-30-34384-01
La Sylphide: revival of a production designed by David Walker and directed by Peter Schaufuss, after August Bournonville; Jun 6

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Manon: by Massenet. New production conducted by Jiří Kout in a staging by Cesare Lievi. With sets by Margherita Palli and costumes by Luigi Perego; Jun 7

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; Jun 3, 5

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; Jun 3

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Cosi Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; Jun 4, 6
● Katya Kabanova: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hoheisel. Cast includes Amanda Roocroft. With the London Philharmonic Orchestra; Jun 3, 5, 7

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
Siegfried: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Pilz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; Jun 2, 5

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by André Previn in works by Copland, Barber and Gershwin; Jun 7

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
Summer Exhibition: held every year since the Academy's foundation in 1768, the world's largest open exhibition displays work by established painters and sculptors alongside that of younger and less well known artists; from Jun 2 to Aug 16

OPERA
Barbican Theatre
Tel: 44-171-638 8891
L'Orfeo: by Monteverdi. American choreographer Trisha Brown makes her debut as an opera director with this production, which is designed by Roland Aeschlimann and conducted by René Jacobs; Jun 3, 4, 5, 6

English National Opera, London Coliseum
Tel: 44-171-632 8300
● Carmen: David Fitch and John La Bouchardière direct a revival of Jonathan Miller's production, conducted by Noel Davies. The title role is sung by Sally Burgess; Jun 3, 5
● Manon: by Massenet. New production by David McVicar, designed by Tanya McCallin. Rosa Mannion sings the title role and the conductor is Paul Daniel; Jun 4, 6

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Manon Lescaut: by Puccini. Production by Liliana Cavani conducted by Riccardo Muti; Jun 5

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: in chamber music by Barrière, Haydn, Boccherini, Dragonetti, Rossini, Weber and Mozart; Jun 7

NEW YORK

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
China – 5,000 Years: highlights include Neolithic jades, Shang and Zhou bronzes, tomb ceramics, and a collection of Buddhist stone sculptures; to Jun 3, then transferring to Bilbao

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Pierre-Paul Prud'hon (1758-1823): first American retrospective of work by the French court painter and draftsman, who won acclaim during the years spanning the Revolution, the Empire and the Restoration for his allegories and portraits. Includes 60 paintings and 100 works on paper; to Jun 7
● Sir Edward Burne-Jones: first American exhibition devoted to the 19th-century British artist, comprising more than 200 works, including tapestries and jewellery as well as paintings. A second generation Pre-Raphaelite, Burne-Jones also had a lifelong working relationship with William Morris, for whose firm he worked as a principal designer; from Jun 4 to Sep 6, then travelling to Europe

Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Bonnard (1867-1947): transferring from London's Tate Gallery, this major retrospective focuses on works produced between the 1890s and 1940s. Includes over 100 paintings – landscapes, still lifes, a series of nudes, and several self-portraits; from Jun 1 to Oct 1

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Sylvain Cambreling in works by Boulez and Messiaen. With soprano Françoise Pollet; Jun 3, 4

Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre des Champs-Elysées: conducted by Philippe Herreweghe in works by Berlioz and Schumann. With mezzo-soprano Brigitte Balleys; Jun 5

WASHINGTON

CONCERTS
Kennedy Center
Tel: 1-202-467 4600
National Symphony Orchestra: conducted by Leonard Slatkin in Mahler's Symphony No. 3. With mezzo-soprano Wendy White: Concert Hall; Jun 4, 5, 6

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13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Uphill struggle

Thailand has made huge efforts to resolve its crisis, but the overhang of internal and external debt is crippling the economy

It is almost a year since the floating of the Thai baht triggered the Asian financial crisis. I, for one, vastly underestimated the chaos that was to ensue. A small consolation is that I have been in good company. Few *envisaged the turmoil of the* past 11 months.

A visit to Bangkok last week showed how far this story is from being over. The most significant lesson I drew was how the combination of mistaken exchange-rate management, poor regulation and idiotic foreign lending helped turn *a property mania into an* economic calamity. Also obvious was the fact that the debtor countries, such as Thailand, are paying the heaviest price.

In Bangkok, half-finished buildings are everywhere, their construction abandoned when money dried up. Yet, in what had long been a dynamic economy, such frenzies are not that surprising. More troubling is the impact of the foreign lenders. Much the most important short-term fact about the *five most troubled Asian* economies – South Korea, Indonesia, Malaysia, Thailand and the Philippines – has been the speed with which this lending has reversed.

The table from the Washington-based Institute for International Finance gives the overall picture: between 1996 and 1997 the adverse shift in net private capital flow was $109bn – more than 10 per cent of pre-crisis aggregate gross domestic product. Between 1996 and 1998, the change in current account deficits is forecast to be $86bn – close to 9 per cent of pre-crisis GDP. In the UK, such a swing in the current account would amount to £70bn ($117bn). If Britain had to make such a huge external adjustment within three years, its economy would be prostrate. No wonder the turnround is causing severe recessions in the affected Asian countries.

Thailand is the crisis in microcosm. Its devaluation marked the beginning. It had the largest current account and is now being forced to make a particularly massive adjustment.

What is remarkable is how well it is doing: according to the macroeconomic forecasts that accompanied the Thai *government's fourth letter of* intent to the International Monetary Fund, released last week, the current account deficit is forecast to shift from a deficit of 8 per cent of GDP in 1996 to a surplus of 7 per cent this year.

This surplus will, it is expected, facilitate a net repayment of short-term capital of between $18bn and $20bn this year, after one of $22bn in 1997. The repayment of short-term debt over the two years amounts to about a third of GDP. As offsets to these outflows, disbursements of official assistance were only $10.2bn by the end of March.

How has Thailand managed to make so huge an external adjustment? The proximate cause has been a $20bn fall in imports, from *$71bn in 1996 to the $51bn* forecast for this year, combined with a modest increase in exports, from $55bn to $58bn. But these changes in the value of imports and exports provide a misleading picture of true performance: the volume of imports is expected to fall by close to a quarter between *1996 and 1998, but that of* exports is forecast to rise by an impressive 19 per cent.

With the decline in the currencies of Thailand and many of its competitors, dollar prices have tumbled. Between 1996 and 1998 the unit value of exports (in dollars) is forecast to fall by nearly 13 per cent and the unit value of imports by 7 per cent. Under these assumptions, the country will have experienced a 6 per cent loss in the purchasing power of its exports, in terms of imports, in just two years. Thus Thailand must *run faster merely to stand* still.

Behind these adjustments in imports and exports lies *the collapse of private* investment. As a share of GDP, this is expected to shrink from 32 per cent to a *mere 16 per cent between* 1996 and 1998. In 1996, the private sector had an excess of investment over savings of 11 per cent of GDP. In 1998 this is expected to become a surplus of savings over investment of 9 per cent of GDP. Meanwhile, the public sector has shifted from a surplus of savings over investment of 3 per cent of GDP to a modest forecast deficit of 2 per cent.

Simple national income *arithmetic says that if the* swing in the private sector's savings surplus is 20 per cent of GDP and the public sector offset is 5 per cent of GDP, the external balance must improve by 15 per cent of GDP – as it is expected to do. Nobody should be surprised that the price of an investment (and import) *adjustment of so vast a* magnitude should be a sharp fall in GDP. This is expected to be between 4 and 5.5 per cent this year. It could easily end up much bigger.

What lies behind these aggregates? A ruined banking industry is part of the answer. One estimate of the non-performing loans of the banking industry is an incredible 30 per cent. Another is a private sector in which those companies that are not bankrupt are starved of credit. Worse, with negative economic *growth and real interest* rates of at least 7 per cent, many that are still solvent today will be bankrupt tomorrow.

Meanwhile, the public sector is not only assuming *responsibility for the* domestic liabilities of the banking system, as was inevitable. It is also forecast to increase its foreign liabilities, from $17bn in 1996 to an estimated $32bn in *1998. The letter of intent* suggests that, though Thailand's indebtedness will stay stable in dollar terms, it will rise from 50 per cent of GDP in 1996 to 73 per cent in 1998, merely because of the *huge devaluation.*

What is happening then is a mixture of debt-deflation and liability substitution. *Companies are being forced* to generate cash. Meanwhile, public debt is being substituted for private debt; *loans from official* institutions are replacing private loans, and medium-term debt is replacing short-term debt.

The government not only recognises the mistakes its predecessor made, but is determined the country will not repeat them. It is doing exactly what the IMF wants. As a sign of satisfaction, the latter is allowing Thailand to run a fiscal deficit of 3 per cent of GDP this year. As the exchange rate has stabilised, Thailand has also been able to cut interest rates.

Yet the fact that Thailand *is the IMF's blue-eyed boy* reveals at least three problems with the wider handling of this crisis.

First, what is most lacking is a swift and efficient way of eliminating the overhang of bad private-sector debt. There is too little pressure *on foreign lenders to write* off foolish loans; official *international finance is* going to pay off imprudent short-term lending; and the government is nationalising debt owed by the banks.

Second, the orthodox way of dealing with the crisis, in which huge *adjustments fall* on the borrowing countries, must make the plight of the private sectors worse. Much of Thai private business will be still weaker next year than it is now.

Third, export-led growth is far more difficult for the whole of east Asia than for Thailand alone, particularly *with the Japanese economy* and the yen in decline. Partly for this reason, further deterioration in the terms of trade – and rising protectionism in North America and Europe – are *worrying dangers ahead.*

This crisis has not even reached the end of its beginning. Worse, Thailand's experience suggests there will remain a long and painful recovery when panic *finally subsides. If one thing* emerges from this calamity, it is that mistakes made by greedy lenders and foolish borrowers cast a long shadow. For all its efforts, Thailand still lies in the *darkness.*

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Crisis and adjustment

Five Asian economies: external financing[1]

$bn	1994	1995	1996	1997e	1998f
Current account balance	−24.5	−41.4	−55.2	−27.1	38.8
External financing, net	45.2	84.6	95.2	18.1	25.9
Private flows, net	37.8	79.2	97.1	−11.9	−0.3
Equity investment	12.1	15.4	18.7	2.1	16.4
Direct equity	4.7	4.9	6.3	6.4	6.9
Portfolio equity	7.4	10.5	12.4	−4.3	9.5
Private creditors	25.8	63.8	78.4	−14.0	−16.8
Commercial banks	23.4	49.9	55.7	−26.9	−19.8
Non-bank private creditors	2.4	13.8	22.7	12.9	3.0
Official flows, net	7.3	5.4	−1.9	30.0	26.2
Int'l financial institutions	−0.4	−0.3	−2.0	22.5	23.2
Bilateral creditors	7.7	5.8	0.1	7.5	3.0
Resident lending/other, net[2]	−15.2	−29.2	−21.6	−30.5	−4.6
Reserves excl. gold (− = increase)	−5.4	−14.0	−18.4	39.5	−51.9
Memo: short-term credits, net	7.3	40.4	38.5	−41.7	42.8

e = estimate f = IIF forecast 1 South Korea, Indonesia, Malaysia, Thailand and the Philippines
2 Including resident net lending, monetary gold, and errors and omissions
Source: Institute of International Finance, April 30

LETTERS TO THE EDITOR

Europe can compete with US even with higher hourly wage costs

From Mr Walter Stanners.

Sir, On October 22 1996 you carried a Personal View by Stephen Roach, the main message of which was that he doubted whether the European Union countries could emulate the "massive headcount reductions" and "real wage compression" which lay behind the "successful restructuring experience in the US". The main feature of this article was a comparison of US, Japanese and European, particularly German, wage rates. These ranged from $17 to $32 per hour, in the same order.

In his new Personal View ("Europe's dilemmas revisited", May 27), he devotes two-thirds of his article to the same – with respect, absurd – notion that "competitiveness" is inversely related to hourly wage rates. Germany is again berated for having wage costs 40 per cent above the European average, and 54 per cent above the US rate, while the UK receives an approving nod for having a rate $4 below. Nowhere does he find space to mention that the US and the UK together have a massive trade deficit, while Germany, France, Italy and Japan all have surpluses which, taken together, are even more massive (both well over $200bn in the last 12 months). Does it occur to Mr Roach to wonder why people (especially in the US) are buying such quantities of European (especially German) and Japanese goods if they are so uncompetitive?

Also, while US progress is undeniable, it is still a fact that all these countries are catching up. Japan rapidly (up from 65 per cent to 83 per cent of the US level of gross domestic product per head in purchasing power, in the period 1975 to 1997), Germany steadily (up from 71 to 77 per cent), the rest more slowly (EU15 up from 68 to 70 per cent). And this process has, if anything, speeded up somewhat during the decade of US "restructuring".

So there is no factual basis for the "widely perceived" turnround in relative performance and for "America's unparalleled competitive hegemony", as cited in Mr Roach's concluding paragraphs. Mr Roach's data are no doubt correct, but they add up, with other unmentioned factors, in a more complicated way than he acknowledges. Final export price is determined by more than an hourly labour cost.

Walter Stanners,
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Hague right about power of EU institutions

From Mr J. C. Stott.

Sir, Lionel Barber ("Blurred power lines", May 27) thinks William Hague, UK Tory leader, is 10 years out of date because "the tide has shifted against the idea of ever greater centralisation in Europe built round the European Commission". He makes great play of the fact that power increasingly lies with networks of national officials – "experts" – who work alongside the Commission to "run" Europe.

This is naive nonsense. There is nothing remotely democratic about a sovereign nation handing the fundamental powers involved in Emu to unaccountable officials: centralisation is centralisation, whether to the Commissioner or to the European Central Bank. The power of European institutions has increased, is increasing and ought to be diminished. William Hague is right.

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Stoiber giving Bavarians what they want

From Mr Erik N. Dunlaevy.

Sir, Ralph Atkins is on the wrong track ("Bavaria flirts with 'zero tolerance'", May 25). He criticises Bavaria's effort to reduce crime further by implying that 5,816 offences per 100,000 inhabitants is low enough. But that means that one out of every 17 people was victimised last year. Or that if he lived in Bavaria for 17 years he would be a crime victim. Judging by his picture, he would already have been a crime victim twice in his young life.

His explanation for the increased government effort against crime is the approach of state elections. He has forgotten or never learned in his liberal education that the purpose of elections is to give the people control over their government. He condemns Edmund Stoiber's government for giving the people what they want.

That is the typical liberal elitist view: don't give the people what they want, give them what we, their superiors, know they need. I say Mr Stoiber is on the right track.

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Braced for invasion

Travelers' deal with Nikko has shocked Japan's financial world. But fears of an outright onslaught by US institutions are overdone, argues **Gillian Tett**

There is an invasion of foreign capital, especially US capital, under way. A type of colonisation of Asia has started.

That was the assessment of Hiromu Nonaka, secretary-general of Japan's ruling Liberal Democratic party, in a speech last week. Then, his comments passed almost unnoticed. Yesterday, they gained new resonance.

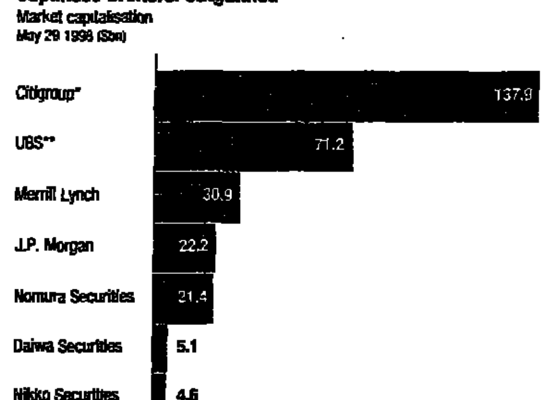
In a deal that startled Tokyo's financial world, Travelers of the US announced it would spend *$1.6bn on a 25 per cent* equity stake in Nikko, Japan's third largest broker. The two groups also plan an investment banking joint venture, capitalised at more than $1bn.

At $1.6bn, the deal is three times larger than anything invested by a western financial institution in a Japanese alliance. And the 25 per cent stake Travelers will acquire is far bigger than most observers ever thought possible in Japan's closed financial world. Until yesterday, the nearest comparable deal was a 1 per cent cross-shareholding agreed between United Bank of Switzerland and Long Term Credit Bank *of Japan. Though a flurry of* looser cross-border alliances has emerged over the past year, most remain limited in scope.

The Travelers deal has a neat historical twist. Almost exactly 10 years ago, the US was braced for an onslaught on Wall Street by cash-rich Japanese banks. But as Mr Nonaka's remarks indicate, the question concerning some Tokyo circles now is whether Japan will itself be overrun by US institutions. "People used to say that we were the invaders," says one senior banker. "Now we ask if we will be *invaded.*"

Such concerns are not without foundation. The pressures that drove Nikko *into Travelers' arms* are present throughout Japan's financial sector. Back in the 1980s, Nikko – like many other Japanese groups – tried to expand its international operations. But its senior management had begun to acknowledge this could not be sustained and, even before yesterday's deal, Nikko had been sounding out other western groups about alliances.

Japanese brokers: outgunned
Market capitalisation
May 29 1998 ($bn)



* Pro forma: assuming merger of Travelers Group and Citicorp completed
** Pro forma: assuming merger of UBS and SBC completed

One reason is that Nikko is in limbo in global terms. It is too large to resign itself to being a niche player, but not large enough to compete with the big US and European groups. "This deal is about capital," says James Fiorillo, analyst at ING Barings in Tokyo. "Nikko realise that they need more capital for technological and strategic investment."

The other reason is that *even within its domestic* market Nikko is losing ground to foreign rivals. This is partly because Japanese clients are demanding the better research skills and advanced financial products that Nikko's western rivals provide. As Masashi Kaneko, Nikko chairman, said yesterday: "As one company alone we cannot satisfy the needs of all our investors . . . we need global partners."

The spotlight will now fall on Nikko's rivals. Nomura, Japan's largest broker, says it is big enough to survive on its own. The group *recently announced a loose* alliance with Industrial Bank of Japan to present a domestic front against foreign rivals. *Daiwa, hitherto* Japan's second largest broker, is in a much weaker position, particularly since it will be overtaken by the joint venture between Travelers and Nikko.

Smaller brokers are also mulling their strategy. Kokusai, the fourth largest (which has the rare distinction of being profitable), could be a tempting partner. "Kokusai has strong domestic retail operations, and if we could have more international capacity to back it up we might consider tie-ups," says Koichi Kane, managing director.

Western institutions are certainly looking for opportunities. Japanese companies offer the distribution networks needed to tap into the fast-expanding retail market. They are also particularly attractive for reaching *medium-sized Japanese companies*, which are expected to develop a taste for western investment banking products in the coming years.

Groups such as Goldman Sachs and Morgan Stanley appear determined to remain free of local relationships in Japan, for now at least. But American Insurance Group, like several foreign insurance companies, is considering an acquisition. Other smaller US and European *investment banks and asset* management groups are seeking partners among brokers, banks and life *assurance companies*. Some recent product-based alliances could deepen: a recent tie-up between HSBC Securities and Chuo Trust to sell investment funds, for example, is attracting considerable interest.

Travelers is unlikely to be the last alliance. But that does not quite add up to Mr Nonaka's *fears of a fully* fledged invasion. What the Travelers-Nikko deal highlights is not simply the motives for alliances, but *also the problems.*

One of these is the issue of accounting. Many non-Japanese groups have been reluctant to purchase large equity stakes in Japanese groups because they fear unrevealed *losses. Instead, they have* tried to ringfence alliances from existing problems. GE Capital, the US financial group, recently spent Y72bn on a joint venture with Toho Mutual, the life assurance group, but it avoided investing directly in Toho itself.

The Travelers' deal may suggest this attitude is changing. But the fact that 15 per cent of its equity stake in Nikko will be via convertible bonds suggests that even Travelers is being careful. Many western bankers are more wary still. "I don't think we would want to expose ourselves to these risks," says one.

A second problem is cultural. Joint ventures have been very difficult to manage in Japan because of differing management styles. Nikko and Travelers yesterday indicated they would overcome this by imposing a "global" *management style*. Though this may imply Travelers will have the upper hand, the US group – *with only a 49 per cent stake* in the joint venture – may not find it easy to impose its will. And notwithstanding its 25 per cent stake in Nikko, it has only one board member. "We are the junior partner in this," says Sandy Weill of Travelers with uncharacteristic humility.

Some observers say such a stance reflects a desire to avoid provoking a nationalist backlash. Others believe Mr Nonaka's comments do *not reflect prevailing attitudes*. The Ministry of Finance has thrown its full support behind the deal, and says *it will* encourage other alliances or acquisitions.

Western caution will continue to be a factor. "This is not a country where you are about to see hostile bids for companies or even an outright takeover," says one banker. "People are treading warily."

The Travelers deal marks *a change in the rules of* engagement. But the contest will be a long and stealthy one.

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FINANCIAL TIMES

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Tuesday June 2 1998

The BJP's lack of reforming vision

India's nuclear tests, odious though they were, did at least provide the ruling BJP party with a window of political opportunity. With its popularity riding high, the BJP could set out its own radical view of how to reform the Indian economy, without too much fear of criticism. But yesterday's budget passed up this opportunity in favour of a policy which, whilst perhaps boosting growth in the short term, gives an extremely worrying indication of how the BJP intends to take India forward.

In deciding his budget, the Indian finance minister, Yashwant Sinha, had two macroeconomic aims. One was to boost output growth, which last year flagged to 5 per cent and is now further threatened by sanctions. The other was to keep the budget deficit under control.

He clearly chose growth as his priority. Government spending is projected to rise by 14 per cent in nominal terms this fiscal year, including a 35 per cent rise in infrastructure spending. His decision to increase import duties by a massive 8 percentage points should also help India's trade account. However, the extra spending may not boost growth as quickly as he is hoping: infrastructure projects in India take a painfully long time to get started.

Surprisingly, he appears to have increased spending without increasing the deficit. The new target for the fiscal deficit is 5.6 per cent of gross domestic product, compared with 6.1 per cent last year. But many of the planned sources of income are doubtful. Mr Sinha set a target for disinvestment proceeds of Rs50bn ($1.2bn), but such targets have often been missed in the past. Revenues also depend on a plan to increase the number of people paying taxes through more stringent monitoring. And at a time when many economists are questioning whether growth this year can exceed last year's 5 per cent, Mr Sinha appears to have factored 6.5 to 7 per cent growth into his assumptions. Last year's fiscal target was significantly overshot; there must now be serious worries that the same will happen this year.

But this budget had a wider significance than its immediate macroeconomic impact. More importantly, it was a chance for the BJP to set out how it intended to use its power to liberalise and reform the structure of India's economy. It was here that it was most disappointing.

The budget did contain some measures on privatisation. The government announced its intention to sell off a majority stake in one leading company, Indian Airlines, and said that it plans to sell off or even close down other non-strategic public companies.

This small advance, though, was completely overshadowed by the backward moves on trade liberalisation. The increase of 8 percentage points in most import duties takes India's effective maximum tariff to over 50 per cent, among the highest levels in the world. The budget also contained no significant measures to open the economy to foreign participation.

India had been inching away from protectionism since the early 1990's. The reversal of this liberalisation process is of deep concern. Indian industry will only become more competitive if the economy is opened up – but this budget has shown that the BJP is as far from accepting this as ever.

California Blues

Californians vote today on proposition 227 – a proposal requiring the state's schools to teach all its children, including its 1.4m Spanish-speaking pupils, in English.

It is a vote which resonates beyond the narrow educational issue of whether California should scrap its controversial bilingual programme – where Spanish-speaking children are taught first in Spanish, transferring only gradually to English.

It pulls into focus the accelerating growth of Latinos as part of US society, set to reach a quarter of the population by 2050 but to form the majority in California and Texas long before that. It also highlights the imperfections of California's plebiscite populism as a way to run government.

That bilingualism has failed – at least as practised in California – is evidenced by the awesome school drop-out rates for Hispanics and the opposition of many Latino parents who see the programme as economically disadvantaging their children, cutting them off from the language on which the world of business, not just in the US but increasingly globally, turns. There is equally the argument that to remain one country amid ever increasing ethnic diversity the US needs to retain one language, something it has achieved through countless waves of immigrants.

Bilingualism's failure may be due less to the programme – what limited good-quality evidence there is suggests that done well it may offer very marginal advantages – than to the fact that California's school system is in such a state of disrepair and underfunding that the programme cannot possibly function effectively. Pupils, as a result, are getting the worst of both worlds.

That in turn, however, has resulted from the voter-driven plebiscites, which starting with the tax-limiting proposition 13 in 1978 have increasingly crabbed and constrained California's public services. Its schools, once a pride of America, are not only among the worst-funded but worst-performing. Plebiscites, as with proposition 227, have proved blunt instruments, offering voters "take it or leave it" solutions to often complex issues. In a state where the gap between rich and poor is widening dramatically, and where the rich and childless vote disproportionately, they look a worryingly imperfect form of democracy – even if the answer to today's proposition should probably be yes.

Guns for votes

On the road to peace in Northern Ireland, there are many possibilities of failure. One would be renewed argument about whether those linked to paramilitary groups hold office in the new assembly without first ensuring that terrorist weapons were handed in.

Last week, Lord Cranborne, the Conservative leader in the Lords, accused Tony Blair, the prime minister, of ratting on his promises that paramilitaries could not hold office unless the scrapping of weapons had begun. This followed indications that the law to enact the Good Friday peace agreement might place more emphasis on the renunciation of violence than on actual decommissioning.

Lord Cranborne's intervention has been doubly unfortunate. First, it has helped to revive Unionists' fears. Second, because Tory co-operation is essential if the new law is to be enacted before the summer.

Keeping up the momentum towards peace is more important than the modalities of decommissioning. While the paramilitary groups are calculating the possibilities of power through the ballot box, there is a good hope that they will continue to leave their guns at home. Suppose that in five years no weapons had been handed in, but peace prevailed. This would be a good outcome – if not the best.

The agreement tacitly recognised this, requiring that office-holders in the assembly should be fully committed to non-violence, making provision for them to be removed if they are not, and enjoining them to do their best to secure decommissioning. Everyone knows that persuading terrorists to give up their weapons will be difficult. The timetable envisaged is two years, whereas elections for the assembly are in 23 days' time.

There may be risks in holding the elections so soon, even before the UK government has enacted its bill to give force to the agreement, but the risks of stalling are greater. The Tories should therefore support the government and recognise the practical politics of decommissioning.

The government, for its part, must stick closely to the terms of the Good Friday agreement and emphasise the importance of explicit and genuine renunciations of terrorism by those standing for election. Such promises should progressively bind former terrorists to democracy. At present this is the best hope for Northern Ireland.

From corn to cancer

Clive Cookson and **Nikki Tait** ask whether the merger of Monsanto with American Home Products marks a new phase for the life sciences sector

The buzz about "life sciences" in the chemical and pharmaceutical industries rose to a new pitch yesterday, when Monsanto and American Home Products announced a proposed merger.

The combined group would have worldwide sales of about $23bn (£14bn) a year, ranging from human health to agriculture, drugs to seeds. It would lead a growing pack of global companies that have pinned their colours to the banner of life sciences, which apply biology to a wide variety of businesses. Others include DuPont of the US, Novartis of Switzerland, Hoechst and Bayer of Germany, Rhône-Poulenc of France and Zeneca of the UK.

They are approaching from different directions. Some are moving away from the low earnings and poor growth prospects of heavy chemicals, while others are looking for non-medical applications of biotechnology. All subscribe to the strategy that a research base in the biological sciences can best be exploited by running a range of businesses covering the health and well-being of humans, animals and plants.

As John Stafford, AHP chairman, said yesterday: "It is becoming more and more costly to take advantage of the new technologies, the new biology that is available in both the medical and agricultural field. [The merger] will enable us to have the resources to be able to pursue these new technologies and turn them into products that will be helpful to the medical profession, consumers, agricultural research and other constituents."

This "life sciences" strategy contrasts with the policy of many mainstream pharmaceutical companies, such as Glaxo Wellcome, SmithKline Beecham and Merck. They have chosen to concentrate on human health.

Views differ as to which is the better approach. "The so-called synergies claimed by life sciences companies are a fantasy," said one drug company executive who did not want to be named. "We don't want to be distracted by farming at the research or the management level."

Sir David Barnes, chairman of Zeneca, believes that to be an outdated view. "The agricultural and medical market places are very different but at the research level there is growing commonality," he says. "Technologies such as gene sequencing, combinatorial chemistry and high-throughput screening are as relevant to the agricultural as to the human health sector."

Of all the companies involved in life sciences, Monsanto has made the most aggressive push into plant genetics – changing crops to make them resistant to diseases or pests or taste better or last longer on shop shelves.

Once viewed as a rather stodgy chemicals business based in St Louis, the group split off its chemicals interests as an independent company, called Solutia, last year to concentrate on the life sciences. Its sales ex-Solutia stand at around $8bn a year, with roughly half coming from agricultural products and the remainder from the Searle pharmaceuticals unit and from food ingredients.

Both before and after the Solutia disposal, Monsanto had been ploughing billions of dollars into life sciences. In 1997, it spent about $1.3bn on "growth-related" expenditures, such as research and product development. Last month alone, it agreed to spend about $4bn to take control of DeKalb Genetics and Delta & Pine, two US companies in which it already held minority interests. It had been working with these companies to commercialise various genetically engineered products such as insect-resistant cotton and herbicide-tolerant soya beans.

Several of Monsanto's competitors said they could not have justified paying so much for the two seed companies. But Henrick Verfaillie, the company's president, defended the scale of investment in a recent interview, talking about the need for a radical shift in world farming techniques.

"We clearly have moved faster and more aggressively than any other company because we believe in the concept of life sciences," Mr Verfaillie said. "It is clear that food production needs to become more efficient, because of population growth and because, especially in the developing countries, people are starting to change their diets. If you travel in China, people are eating chicken or meat where before they were eating rice and vegetables. And immediately you need a much higher production of grains.

"We believe that over the next 20 or 30 years, we need to double the amount of grains produced worldwide to keep track of the population and the change of diet."

The world's farmers are expected to sow more than 30m acres this year with genetically engineered seeds – particularly cotton, soya beans and maize. They are spreading through all the main food-producing regions except Europe, where a strong consumer resistance movement is holding up regulatory approval of transgenic crops.

> **'The agricultural and medical market places are different but at research level there is growing commonality'**

Add to this the need for more food a growing obsession with "healthy eating" as the baby boomer generation ages, and concerns over sustainability.

This underlying belief in the need to increase world food production is only part of the argument for crop engineering. One of Monsanto's biggest revenue sources has been its extremely successful Round-up herbicide, which is due to move out of patent protection in the US soon.

Although the company plays down the potential revenue threat, it has put considerable effort into the sale of "Round-up Ready" tolerant seeds to help secure future sales. In effect it has converted Round-up from a broad-spectrum to a crop-specific herbicide: when the farmer sprays the field with Round-up, all the weeds die, but the crop itself thrives.

Mr Verfaillie made clear that the company saw itself as racing both to take advantage of the rapidly shifting technology and to get products into the marketplace. The rationale for taking full ownership of DeKalb and D&P was simply "speed", he said.

Yesterday, Robert Shapiro, Monsanto's chairman, made the same point. "All this is being driven by the unprecedented discoveries going on in the biotechnology field," he said. "To make sure you have a lead, you have to a lot of cashflow and organisation."

The competitors agree. Pioneer Hi-Bred, the Iowa corn seed company in which DuPont bought a 20 per cent interest for $1.7bn last year as part of its push into life sciences, says the farm sector is increasingly producing not just commodity goods, but products tailored to end-users' demands. Agricultural genetics is making it possible to develop specialised crops such as grains enriched in particular nutrients for the food-processing industry.

Even so, Charles Johnson, Pioneer's chairman, warns that some developments that are becoming technically possible are not necessarily of immediate commercial value – making it essential for companies playing in this field to have deep pockets.

Producing vitamin-enriched bananas, for example, may not necessarily be the most efficient way to deliver dietary supplements to children. "How much extra are you going to pay for that? Is it the best way to get vitamins to children?" Mr Johnson asks. "I think there are real values in all of this, but the whole question requires much more attention."

AHP too has been a life sciences company since 1994, when its acquisition of American Cyanamid brought it a substantial business in animal health and crop protection products. But this has focused on more traditional agrochemicals, rather than on the biotechnology-driven areas such as crop engineering.

To some extent, the rationale behind the AHP-Monsanto deal may be similar to that of the last great life sciences merger – the coming together of Ciba and Sandoz to create Novartis in 1996. In both cases, a company that was relatively weak in pharmaceuticals and strong in agricultural products (Ciba and Monsanto) found a partner that was strong in drugs and weak in agrochemicals (Sandoz and AHP).

Everyone expects corporate consolidation in the life sciences business to continue. Most speculation involves DuPont, which spent $2.6bn last month buying out Merck's 50 per cent stake in the two companies' pharmaceutical joint venture.

DuPont plans to sell off Conoco, its oil division, raising around $20bn which will be used to expand its life sciences interests. Chad Holliday, DuPont's chief executive, wants to increase life sciences from 20 per cent of group sales today to 35 per cent by 2002.

Monsanto had been seen as a potential takeover target for DuPont – and DuPont could yet make a counter-proposal to the AHP merger. Or, analysts say, it may bid for a second-tier US pharmaceutical company such as Schering-Plough.

Zeneca is another potential target for merger or acquisition. The UK company's drugs business has been performing very well but it has not been investing as much in agricultural biotechnology as most of its competitors.

Even Dow Chemical, a US chemical company without a pharmaceutical business, is moving cautiously into biotechnology. It is working on insect-resistant plants and sees a role for itself in the genetic engineering of crops to produce industrial materials such as plastics.

In Germany, observers say consolidation is inevitable – perhaps extending as far as a merger between the two German giants, Hoechst and Bayer. At the least, Hoechst and Schering will have to sort out the future ownership of their agrochemicals joint venture, AgrEvo.

The range of possible alliances is long. Life sciences will remain a buzz phrase in financial circles for years to come.

OBSERVER

Paternal publisher

Much Italian business is still done the family way, for all the talk about globalisation and the shift to Anglo-Saxon-style capitalism. So it's no surprise to find a father-and-son team at the helm of one of the country's leading industrial holding companies – especially when the name is Romiti.

Since Cesare Romiti announced in January that he would let go of the steering wheel at Fiat this month, there has been press speculation about his next move on a scale matched only by papal elections.

The media have always had the sneaking suspicion that the forceful Fiat chief fancied himself as a newspaper tycoon. There was talk that he might go into banking or another large industrial group, or even enter politics to revive the centre-right. But what better power base in Italy – or indeed anywhere – than control of an influential newspaper?

So today Romiti is set to be appointed chairman of the RCS-Rizzoli publishing empire owned by the HDP holding company – which is managed by his son Maurizio, a position, many unkind tongues say, the younger Romiti largely owes to papà.

RCS, they say, can now stand for Romiti Chairman and Son – though that might not last long if the group's publishing side is spun off, leaving Maurizio with the fashion businesses.

At Rizzoli, Romiti senior will control Milan's Corriere della Sera, Italy's leading daily, and the Gazzetta dello Sport, the country's top-selling newspaper, as well as a bunch of magazines and a book publishing business.

At Fiat, Romiti could influence three newspapers: the financial daily Il Sole 24 Ore owned by the Italian employers confederation; La Stampa owned by Fiat; and Corriere since Fiat is still the single largest shareholder of HDP.

It used to be said that one of the treasured perks of Giovanni Agnelli, the Fiat family patriarch, was to appoint the editor of the Corriere. So it looks as if one Italian tradition might not last much longer.

Gaining altitude

Philip Chen's rise through the ranks of Cathay Pacific to his new post of chief operating officer has been in inverse proportion to the recent fortunes of the company he may one day lead.

Hong Kong's de facto flag carrier is less of a high-flyer these days with revenues facing headwinds and expenses soaring into the clouds – for a start, moving to Hong Kong's spanking new airport won't be cheap.

Chen, 43, is Hong Kong born and bred and an alumnus of the prestigious Hong Kong University. He's little-known outside the company but seems to have got noticed by his superiors – his 22 years with the company included a spell with its parent, Swire Pacific. As the call for localisation grew louder, Chen was groomed to take up the reins traditionally held by expatriate Brits.

His profile was given a boost last year when, as deputy managing director, he launched the two-for-the-price-of-one ticket offer which was Cathay Pacific's contribution to the territory's post-handover tourism drive.

Shareholders may like the idea that Chen's appointment puts Cathay Pacific at the head of the British-backed pack as far as localisation is concerned – as long as it also helps to turn round the airline's flagging fortunes.

Wings of love

June is the traditional wedding month in the US, where it's also traditional to find some new fad to mark the vows to love, cherish, honour and even sometimes obey.

Years ago, doves were set free at the more lavish shindigs. Then there was a fashion for balloons, but environmentalists objected. People started throwing bird seed, until guests started slipping on the stuff, then they used rice, but birds thought it was bird seed and rice isn't good for birds.

Apparently 1998 is the year of the butterfly. Companies put caterpillars in boxes at the right age so that they hatch out just before the wedding. When guests open their boxes, a multicoloured cloud of wings ascends.

There has been some trouble with cascades of dead butterflies when someone got the timing wrong, but the fashion is expected to take off. After all, with its brief lifespan, a butterfly seems an appropriate symbol for the modern American marriage.

Can do

Boozy mountaineers have forced Nepal into a drastic decision: beer-lovers who live near Mount Everest will have to take their pleasure from cans rather than bottles.

Apparently climbers like to pack some foaming tipples among the pitons, crampons and ice axes, and have left more than 60,000 empty beer bottles lying around. Vehicles can't get in or out of the remote region of Khumbu, and it would cost $45,000 to airlift the 20 tons of glassware out. Nepalese beer producers, who normally recycle the empties, say they're not stumping up.

A Nepalese official says a new law banning bottled beer in Khumbu is "on the anvil". Cans will be allowed, as they can be recycled locally. Watch out for lots of abandoned ring-pulls on the south face.

Numberless

An economist speaks: there are three types of economist, those who can add up and those who can't.

The Financial Times 100 years ago

Trade Outlook in Japan
The go-ahead and impetuous nation of Japan has of late evinced an inclination to live beyond its means; its anxiety to adopt the fabric of modern civilisation without a moment's loss of time has led to the adoption of a gold standard – a step necessarily involving far-reaching economic changes; and last, though perhaps not least, its business principles have not been quite up to the approved standard, and have evoked serious rebuke from consular and other authorities. The accumulation of adverse trade balances which commenced in 1896 has continued unchecked.

50 years ago

Airline Buys Lockheeds
Advertisement: "Air India International last month purchased a fleet of high-speed Lockheed Constellations for international service. The famous Lockheed transport is already used on more global air routes than any other high-altitude plane. Air India International will be the 14th major airline to inaugurate Constellation flights on important routes. Constellations currently serve every continent of the world under the flags of ten different nations."

FINANCIAL TIMES

TUESDAY JUNE 2 1998

THE LEX COLUMN

Mammoth indifference

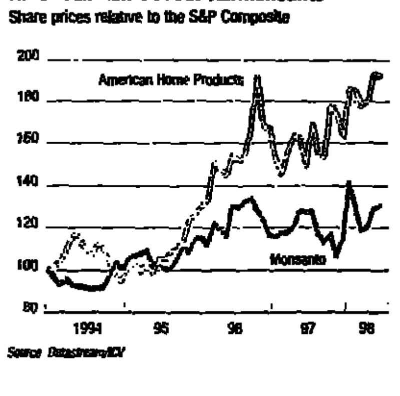
In a land of dinosaurs, a mammoth does not look that exciting. That may explain why the merger of American Home Products and Monsanto failed to catch the market's imagination yesterday – the first time in years a large pharmaceutical deal has not been greeted with soaring share prices. With a combined market value of nearly $100bn, the as-yet-unnamed company will be big, but not as big as Merck or Pfizer on their own. Nor does it look as powerful as the Glaxo/SmithKline merger that fell apart this spring.

In such a deal-crazy industry, it is hard to believe that either has ended up with its partner of choice. For AHP, which nearly merged with SmithKline, this is clearly not the case. And while Monsanto's G D Searle, has a strong pipeline, its current sales are barely a third of AHP's. Its shareholders may thus want to question whether buying Monsanto at over 50 times earnings and suffering dilution of 15 per cent in the first year is a price worth paying. Monsanto's investors, meanwhile, face being taken over by the much slower-growing AHP – which will end up with 65 per cent of the new entity – for virtually no premium.

The two companies did not help themselves yesterday, by announcing yet another joint chief executive arrangement and forecasting $1.5bn of cost savings, much of which is merely "cost avoidance" or money they will no longer have to spend rather than cost cuts.

This combination is not all bad. Pushing Searle's new drugs through AHP's infrastructure makes sense and will save money. And the new company will threaten Novartis' leadership in agrochemicals and seeds, though Monsanto was doing so anyway. But the market's lack of enthusiasm means there is a chance for a third party to come in and spoil the deal.

American Home Products/Monsanto
Share prices relative to the S&P Composite



Source: Datastream/ICV

Air France

The World Cup is building up into as fascinating a contest at Air France as it is on the football pitch. While straitened French truck drivers have shied away from strikes during the tournament, the pilots – who lack the truckers' popular support – have weighed right in. The fact that such action will make these well-paid employees even less popular should strengthen the management's resolve to stand firm.

Not that chairman Jean-Cyril Spinetta should need much encouragement to grasp this nettle. Last week the group reported its first net profits for several years. So it should have after heavy restructuring. But it has burst into the black at quite an advanced point in the airline profits cycle. So for the pilots to refuse to accept FFr500m cuts because of these earnings smacks of unreality. This is rammed home when comparison is made with British Airways, which is on the way to cutting its cost base by £1bn by 2000. Air France's competitors keep raising the cost-cutting stakes.

With the strike clearly threatening profit progress this year, those preparing Air France for semi-privatisation are losing part of the recovery story. The airline should instead aim to come to the market with its biggest labour cost problem solved. This means not only the management standing firm but also the government, despite the temptation to save France's blushes during the World Cup.

Stora

Percy Barnevik is shaking the tree at Investor. Pushing Stora, the underperforming Swedish pulp and paper group, into the Finnish Enso's arms shows he is dealing with Investor's laggards firmly. With around 20 per cent of the merged group, Investor should have no compunction in selling out completely of the strengthened company.

It is therefore a shame the Finnish government will be a major shareholder in the new entity through its stake in Enso, which, to the detriment of other shareholders, it wields as a tool of industrial policy. Shares in the new entity would presumably also attract a higher rating if a unified share structure were introduced that reconciled votes with capital.

Taken with the sale of a stake in Saab aerospace to British Aerospace and various corporate governance reforms, Mr Barnevik's chainsaw is whirring. Whether he will take it to the share structures that allow the Wallenbergs to wield power beyond their capital – perhaps sawing off the very branch he is sitting on – remains to be seen.

Veba

The vertical lift that once characterised Veba's shares has faded into the sluggishness typical of diversified utilities. Veba has now lagged behind the German market by 32 per cent since 1997 and, like Viag – which appears to be contemplating fresh blood in the boardroom – needs revitalising. To some extent, a degree of disenchantment with the Ulrich Hartmann management story is only to be expected after the initial euphoria. But with the easy cost-cutting done, a 30 per cent discount to break-up value demands radical action.

Spinning off businesses such as chemicals, oil and trading would release most of that value. Steps along this road have been taken by merging a restructured Huls with Degussa. But Veba will still own some 65 per cent of Degussa-Huls: ideally, it would demerge the whole chemicals operation once it has been put into a position of strength.

Postponing the partial float of the Stinnes trading arm is disappointing, but the restructuring necessary should prompt Veba to considering floating all of it. Meanwhile, its plans to merge the companies' two upstream oil operations and clarify their ownership structures are sensible. Only once that is done will the entire oil division, recognised as non-core, be ready for a stock market listing. Left with a restructured, cash-generative electricity business and promising telecoms assets, Veba would be in a position to outperform again.

India's BJP announces high-spending first budget

By Mark Nicholson in New Delhi

India announced a high-spending and protectionist budget yesterday – the second step in what it said was a national renaissance triggered by the decision to carry out nuclear tests three weeks ago.

"A new India is rising," proclaimed Yashwant Sinha, finance minister, laying out the Hindu nationalist Bharatiya Janata party's first budget.

The measures are designed to revive growth through big rises in government capital expenditure, while meeting domestic industry pressure with the imposition of a broad 8 percentage-point rise in import duties.

However, markets gave Mr Sinha's budget a thumbs-down. India's benchmark BSE-30 index fell sharply in late trading to close down 95 at 3,642.

The budget raised defence spending by 14 per cent and increased by 68 per cent the funds available to the Department of Atomic Energy. On defence, Mr Sinha said he would "consider further increases ... during the course of the year". He added: "There can be no compromise in our defence preparedness."

The state-monopoly insurance sector would be opened up to the private sector, he said, but apparently only to Indian companies. The budget contained few direct incentives for foreign investors, although it promised "hassle-free" procedures for them. Mr Sinha said India aimed to double this year's $3.1bn of direct investment by 2000.

He promised to accelerate privatisation, including a majority sale within three years of Indian Airlines, the domestic carrier.

More sweepingly, he said the government would cut holdings in public companies to 26 per cent, while closing down some lossmakers.

Mr Sinha said the government would proceed with equity sales in four big public enterprises, IOC, Gail, VSNL and Concor, which had been approved by the previous United Front government. He aimed to raise Rs50bn ($1.2bn) through disinvestment.

Industry groups which had urged a 5-10 percentage-point rise in import tariffs were rewarded by the broad 8 point rise, which makes Indian tariffs the highest in Asia. "This duty should not be viewed as a protectionist measure, but only as a response to a legitimate demand for a level playing field," Mr Sinha said.

He promised an 18.8 per cent rise in total government capital spending, the second biggest proportionate rise in a decade – notably on agriculture, infrastructure (up 35 per cent), welfare and education.

Mr Sinha also set a lower target for India's high fiscal deficit at 5.6 per cent of GDP, compared with last year's 6.1 per cent, counting on growth of up to 6.5 per cent and revenues from disinvestment, better tax compliance and a revenue bounty from a slew of excise duty increases and the 8 per cent rise in import tariffs. But Mr Sinha said he aimed to raise by 50 per cent the number of taxpayers, currently a dismal 1.25 per cent of India's 960m population.

Sinha disappoints investors and Nuclear initiative, Page 6
Editorial Comment, Page 15

Holocaust survivors' lawyers to file against Swiss central bank

By John Authers in New York and Richard Wolffe in Washington

US lawyers will file a class action this week against the Swiss National Bank, Switzerland's central bank, on behalf of holocaust survivors.

The action represents a significant escalation of the international campaign to extract compensation from Swiss banks for their alleged failure to return stolen goods to victims and their descendants after the war.

The news comes before today's expected publication of a US State Department study that says about $300m of looted Nazi gold (worth $2.6bn in today's prices) was spent on war materials in the neutral countries of Spain, Portugal, Sweden and Turkey. Three-quarters of the gold was channelled from Germany via the Swiss National Bank, US officials are expected to confirm.

State Department sources rejected reports yesterday that their findings were an attempt to shift blame from the Swiss to other neutral countries. Today's study focuses on trade issues, following a similar investigation of the financial mechanics of the Nazi war effort published last year by the State Department.

Lawyers have been in negotiations, mediated by the State Department, with the big three Swiss commercial banks – UBS, Credit Suisse, and Swiss Bank Corporation – over a possible global settlement to a class action launched early last year. The class action has not so far covered the Swiss National Bank, which is a government-run organisation.

Michael Hansfeld, of the Cohen Milstein Hausfeld & Toll law firm in Washington, who jointly leads the class action against the commercial banks, said a lawsuit would be launched against the central bank this week. Like the action already in progress, it will also be led by the New York firm of Milberg, Weiss, Bershad, Hynes & Lerach.

Swiss bankers are likely to dismiss the action as a publicity gesture, because the Swiss National Bank does not have operations in the US. They believe any case against the bank would eventually need to be tried in Switzerland.

But Mr Hausfeld said the lawyers had "plaintiffs all over the world".

Swiss bankers are also likely to point out that the State Department's findings do not differ substantially from the findings of the so-called Bergier Committee of Swiss historians, which produced a report on the issue at the end of last year.

UBS and Swiss Bank Corporation face another potential obstacle in the US on Thursday when the New York State Banking Commission holds its monthly meeting. The two banks announced plans to merge last year but have not been cleared to set up an office for the merged entity in New York.

The New York State Banking Department opposed the merger earlier this year, on the basis that it could distract from attempts to compensate holocaust victims. Its move was applauded by George Pataki, the state's governor, who appoints the majority of members of the commission.

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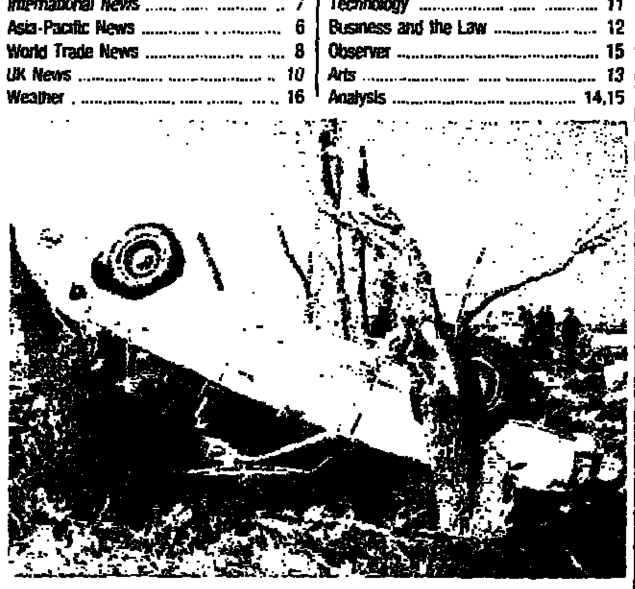
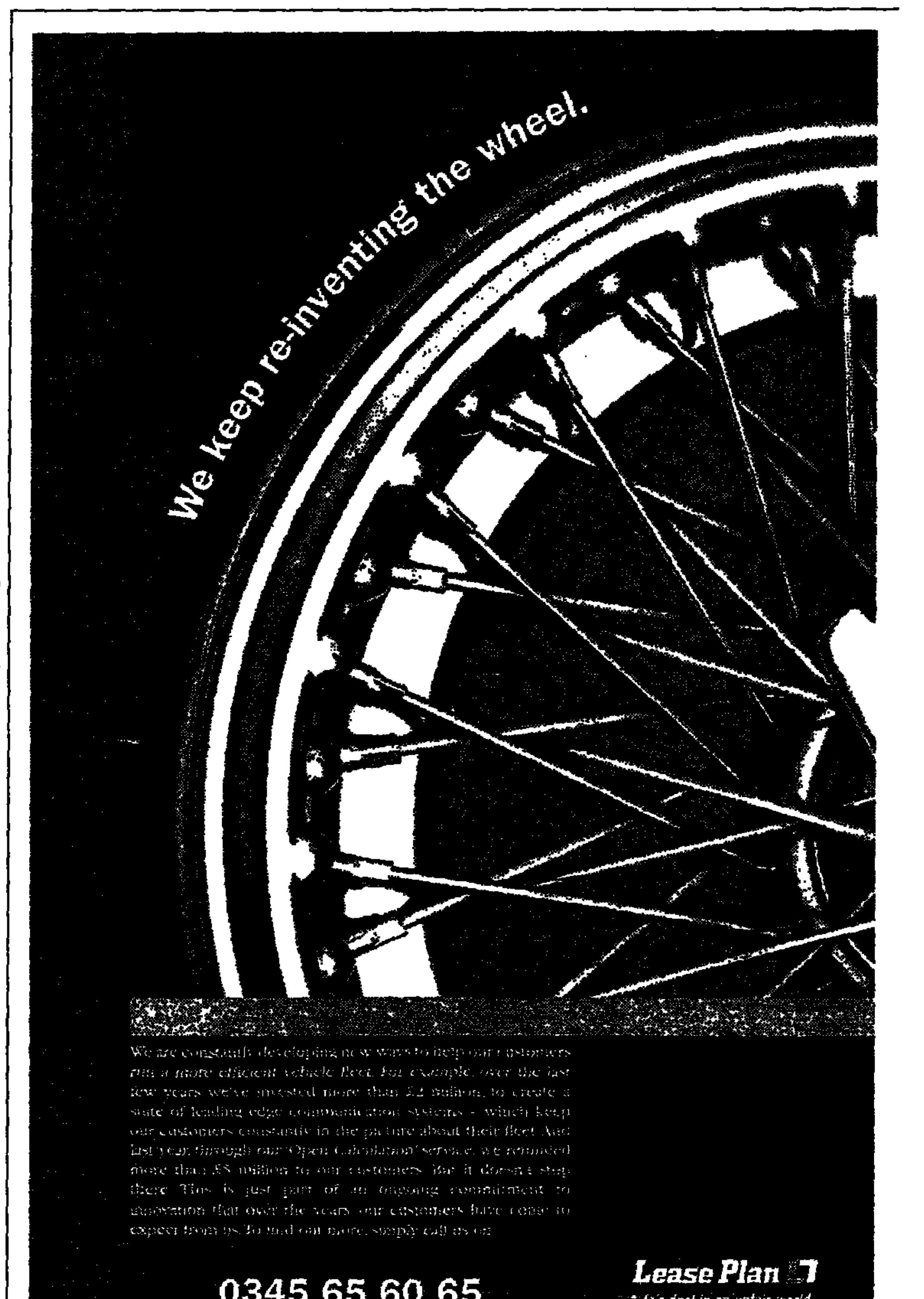


A car lies wrecked after the tornado that hit South Dakota. President Clinton yesterday issued a disaster declaration. Report, Page 5 Reuters



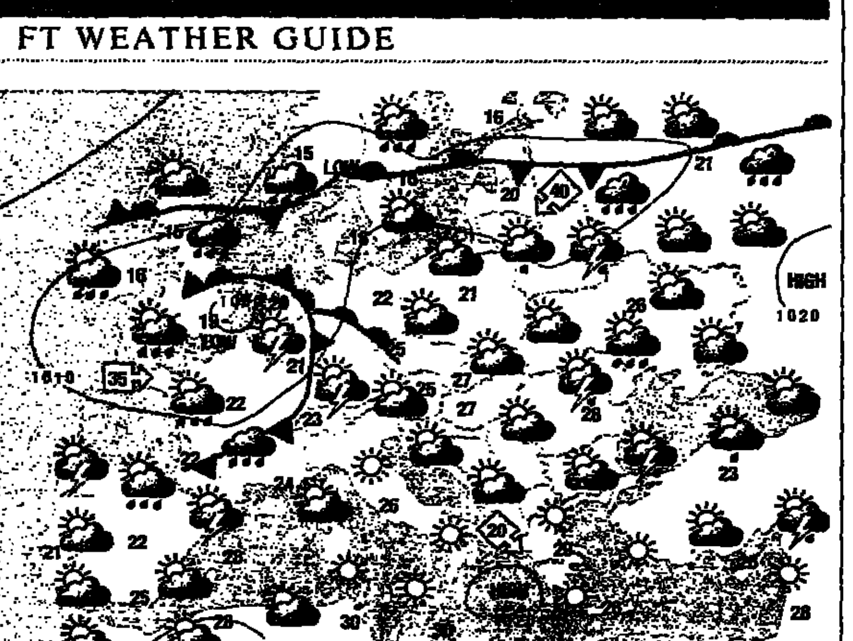
FT WEATHER GUIDE

Europe today

North-west Europe will have heavy showers, with thunderstorms likely, especially over France and the Low Countries. The Iberian peninsula will stay unsettled with showers, some thundery, although the south should stay dry with sunshine. The rest of the Mediterranean will be sunny and hot. The Balkans and much of central and eastern Europe will stay fine, but, from northern Turkey to the Baltic states, there will be heavy showers and thunderstorms.

Five-day forecast

The Iberian peninsula will have more heavy showers and thunderstorms from Thursday. Showers over western Europe will spread across central and eastern areas. Sunshine will follow, but showers may return later. Scandinavia will have some showers with steadier rain this weekend. The Mediterranean will continue sunny and hot.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	Fair	39
Accra	Hail	29
Algiers	Fair	28
Amsterdam	Rain	20
Athens	Fair	29
Atlanta	Fair	34
B. Aires	Fair	15
B.ham	Rain	14
Bangkok	Thunder	34
Barcelona	Thunder	24
Beijing	Fair	25
Belfast	Shower	16
Belgrade	Fair	28
Berlin	Cloudy	22
Bermuda	Fair	26
Bogota	Shower	18
Bombay	Sun	35
Brussels	Thunder	21
Budapest	Fair	27
C.hagen	Fair	18
Cairo	Sun	31
Caracas	Cloudy	30
Cardiff	Rain	16
Casablanca	Cloudy	22
Chicago	Shower	21
Cologne	Rain	23
Dakar	Sun	28
Dallas	Sun	41
Delhi	Sun	43
Dubai	Sun	39
Dublin	Rain	16
Dubrovnik	Sun	26
Edinburgh	Shower	13
Faro	Fair	21
Frankfurt	Rain	24
Geneva	Shower	23
Gibraltar	Fair	25
Glasgow	Cloudy	15
Hamburg	Shower	21
Helsinki	Rain	16
Hong Kong	Rain	27
Honolulu	Fair	27
Istanbul	Fair	24
Jakarta	Fair	32
Jersey	Rain	19
Johannesburg	Fair	20
Karachi	Sun	37
Kuwait	Sun	41
L. Angeles	Fair	22
Las Palmas	Fair	25
Lima	Fair	23
Lisbon	Fair	21
London	Rain	19
Lux.bourg	Thunder	21
Lyon	Thunder	23
Madeira	Fair	23
Madrid	Shower	22
Majorca	Cloudy	28
Malta	Sun	30
Manchester	Rain	18
Manila	Fair	33
Melbourne	Shower	14
Mexico City	Fair	31
Miami	Thunder	33
Milan	Fair	26
Montreal	Rain	20
Moscow	Cloudy	21
Munich	Fair	25
Nairobi	Sun	27
Naples	Fair	28
Nassau	Fair	32
New York	Fair	24
Nice	Shower	24
Nicosia	Sun	28
Oslo	Rain	15
Paris	Shower	22
Perth	Fair	21
Prague	Fair	22
Rangoon	Thunder	32
Reykjavik	Fair	10
Rio	Fair	23
Rome	Fair	26
S. Frsco	Sun	20
Seoul	Rain	25
Singapore	Fair	32
Stockholm	Rain	16
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Vancouver	Sun	19
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Vienna	Fair	25
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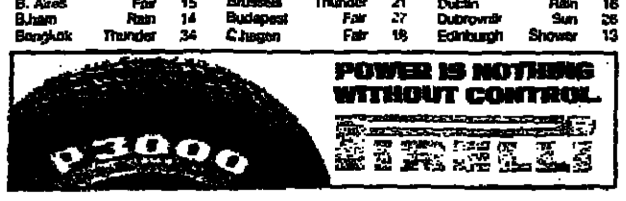
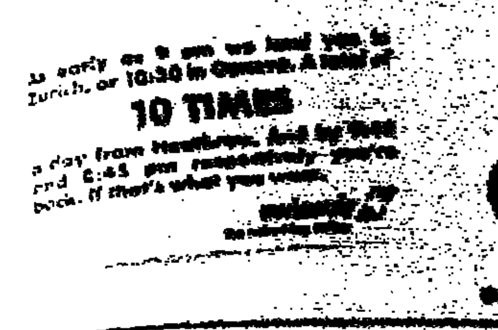
Wellington	Rain	15
Winnipeg	Fair	12
Zurich	Shower	24





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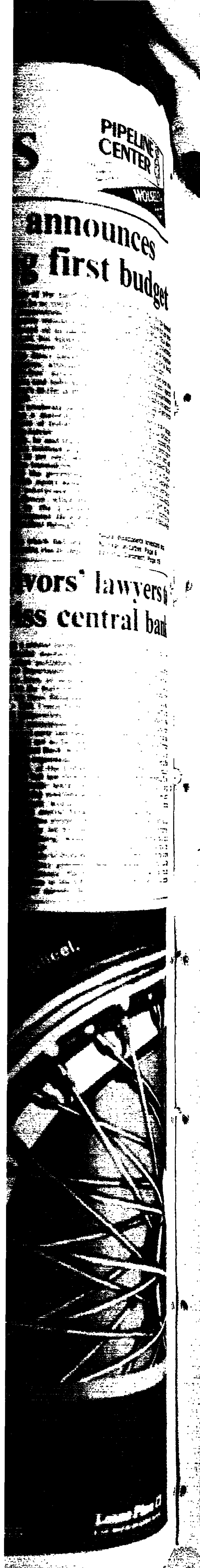

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INSIDE

Dutch banks' battle signals end to friendly relations

The battle between ABN Amro, the Dutch bank, and Fortis, the financial services group, for Générale de Banque of Belgium shows that the cosy corporate culture in Europe is under threat. ABN Amro's attempt to overturn a virtually done deal – contrary to chairman Jan Kalff's (pictured left) repeated view that western European banks were too expensive – is without precedent in Dutch banking. Page 21

Russian fallout hits Polish stocks

The Russian fallout has hit Poland's stock market and stopped the seemingly inexorable rise of the zloty. Since it had been casting a cloud over exporters' prospects, the softer zloty has been welcomed. But local observers are less sanguine about the setback for the share market. Page 40

Japan's fuel stations go self-service

Some Japanese oil companies have introduced self-service fuel pumps as a way of improving profitability. The abolition of bowing teams of attendants at filling stations is a reaction to tough times in the oil sector. Page 19

Diamond prospectors scour Alberta

Diamond prospectors are stepping up interest in Alberta, long known for its oil and natural gas deposits. Junior mining groups have staked out claims to much of the Canadian province, forcing the diamond establishment to take note. Page 30

Internet record sales set to rise

The internet music market is set to grow far faster than expected, according to a study by Market Tracking International, the research consultancy. But will the increase in online sales affect the balance of power in the music industry? Page 18

S&P slashes Pakistan's credit rating

Standard & Poor's has slashed Pakistan's sovereign credit rating by two notches to B minus. The move, which puts Pakistan on a level with the least creditworthy countries in the world, follows international condemnation of Pakistan's decision to conduct six nuclear tests last week. Page 28

Yen drops on Asian recession fears

The yen dropped to within sight of Y140 against the dollar, hit by bad economic data from Japan and surprisingly gloomy growth figures for the first quarter from Hong Kong and Malaysia. Page 29

NTT to issue domestic bond

NTT, Japan's largest telecommunications company, is preparing a Y100bn ($770m) domestic bond issue in a move that highlights the growing trend among Japanese corporations to look to the capital markets for funds. Page 28

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MARKET STATISTICS

Tokyo backs Nikko alliance

Travelers' deal in line with big bang reform

By Gillian Tett in Tokyo and Tracy Corrigan in New York

The Japanese government yesterday threw its weight behind a new alliance between Travelers Group, the US financial services group, and Nikko Securities, Japan's third largest broker.

A senior finance ministry official said: "We support this because it is in line with our big bang reforms and the liberalisation of capital markets. We expect more alliances to emerge."

The news came as Travelers announced it would spend $1.6bn on a 25 per cent equity stake in Nikko, 9.5 per cent through a direct equity buy and 15.5 per cent through the purchase of convertible bonds, exchangeable for common stock in three years.

This makes Travelers the largest shareholder in Nikko and represents the biggest equity stake taken by a non-Japanese group in a Japanese bank or broker. Until recently it was widely assumed that the Japanese government would not permit a foreign company *to purchase a large part of a* Japanese financial group.

Sanford Weill, Travelers' chairman, said: "This is something new... It shows our confidence in Japan... and that what is happening with big bang will lead to growth in the market place." Nikko also said that it would take a small stake in Travelers, expected to total Y10bn-Y50bn ($72m-$360m), by buying shares in the open market.

The companies plan to create an investment banking joint venture, merging Nikko's institutional and corporate business with the Tokyo *operations of Salomon Smith* Barney, Travelers' investment banking arm.

The joint venture, Nikko Salomon Smith Barney, will have capital of more than $1bn, with the chairman and a chief executive from Nikko and another chief executive from Salomon. It will be 51 per cent owned by Nikko and 49 per cent owned by Salomon. However, Masashi Kaneko, Nikko chairman, insisted the split had been decided for accounting reasons. "This is an equal partnership in every sense. The Japanese big bang is a reality and we are witness*ing the global consolidation of* the financial industry... we need partners to be a global winner."

The deal left Nikko's domestic retail operations largely unchanged, the company said. But Nikko plans to double its number of retail outlets to about 300 in a few years.

The agreement provoked a flood of speculation about other deals. The share price of Daiwa Securities, Japan's second largest broker, rose Y23 to close at Y550 and Kokusai Securities, fourth largest, rose Y40 to close at Y1315.

Nikko's shares were also heavily traded, rising Y46 to close at Y482. Their price surged strongly ahead of yesterday's announcement, *prompting the Tokyo Stock* Exchange to launch an investigation into whether insider dealing had occurred.

Braced for invasion, Page 14
Deal maker, Page 20

Early bids in for US group's nuclear businesses

By Virginia Marsh in London

Three groups are understood to have submitted preliminary bids for the Westinghouse nuclear businesses last week. The groups bidding are *believed to include one led by* British Nuclear Fuels and another by the French state-run companies Framatome and Cogema.

The operations are being sold by CBS Corporation, as *the former* US industrial conglomerate Westinghouse Electric was renamed. CBS is disposing of its remaining industrial businesses after remodelling as a media group.

BNFL, the UK's state-owned nuclear fuel and waste processor, is believed to have bid with Morrison Knudson, an Idaho engineering group.

The French consortium is understood to have teamed up with Fluor Daniel, a Californian engineering concern. There is also thought to be a US-led consortium.

The Westinghouse nuclear business includes a government services division whose activities include servicing nuclear weapons and an energy services operation providing utilities with nuclear fuel. Its technology is behind a third of the world's nuclear plants.

The US group is expected to choose a preferred bidder within the next two weeks.

Siemens, the German conglomerate, which last year bought Westinghouse's conventional power generation business for $1.52bn, has not made a formal bid but has a partnership arrangement with BNFL.

The two groups have been in discussions for some time over combining Siemens' nuclear business with BNFL's nuclear fuel fabrication and uranium trading operations.

Analysts have estimated that Westinghouse's conventional power generation and nuclear businesses would together raise about $2bn.

Last week's bids coincided with CBS's announcement on Tuesday that it had agreed to sell its Westinghouse Process Control division to Emerson Electric for $265m.

BNFL, which reprocesses most of the UK's spent nuclear fuel, declined to comment yesterday on whether it had bid.

Partners will vote soon on Goldman Sachs IPO

By Tracy Corrigan and William Lewis in New York

Jon Corzine, co-chairman and co-chief executive officer of Goldman Sachs, yesterday told the firm's 11,000 full-time employees that the listing of Wall Street's largest remaining partnership on the stock market would be discussed at a meeting of partners in New York on June 12.

In a speech accessed by employees through voice-mail, Mr Corzine said "consideration of this issue will quickly come to a head". This was interpreted as an indication that a vote on taking the firm public – which could value Goldmans at up to $30bn – was likely to take place at or soon after the June 12 meeting. He told staff: "It's going to be decided by the entire partnership".

Mr Corzine added that an initial public offering "been looked at many times over 25 years, under vastly disparate circumstances", noting that it had often been considered when the firm was in a position of relative weakness.

It was last considered in 1996 but abandoned before a formal vote by partners. Now, Mr Corzine said, the firm will be looking at the option from a position of strength, which he described as "infinitely preferable", highlighting the absence of "business or leadership stress." He also exhorted staff to "be patient".

According to people close to the firm, there was no decision at a senior management meeting last weekend on what form an IPO would take, if approved. Last month, estimates suggested that an IPO would value the firm at between $22bn and $25bn, but some partners now think it could be worth as much as $30bn, although it is unlikely that the whole firm would be floated in one offering.

If the consensus at the June 12 meeting is in favour of an IPO, the vote could be immediate, with the offering scheduled for the autumn. But some within the firm said a vote could come later. A partnership meeting is expected to take place in October, providing another potential *forum* for a vote. There are still "a bunch of possible outcomes," said one Goldman employee.

Sentiment in favour of flotation is believed to have increased since it was last raised in 1996, as a *result of* the quickening pace of consolidation in the financial services industry, the firm's recent strong profitability and high valuations on the US stock *market*. However, there is still some opposition, particularly outside the US. "There could be an international split on this. We see this as coming predominantly from America," said one London-based banker.

"This is *a top of* the market phenomenon," said one executive just below partnership level. "My reason for joining was to make partnership, but this would stymie that."

Mr Corzine confirmed the appointment of Hank Paulson as co-chairman and co-chief executive officer. He has been president and chief operating officer of the firm since 1994. In a statement, Goldmans said the move "continues the long tradition of joint leadership based upon shared strategic vision and complementary personal talents and experience".

Paper producers on a roll

The merger of Stora and Enso may signal consolidation in the industry

By Tim Burt in Stockholm

The forthcoming merger of Stora of Sweden and Enso of Finland, two of Europe's leading forestry companies, signals an acceleration in the number of consolidations taking place in the international pulp and paper industry.

The enlarged company will overtake International Paper of the US to become the world's largest manufacturer of paper and board, with a combined output of more than 12,000 tonnes a year.

But the deal – the first between top-rank Finnish and Swedish industrial groups – is likely to be only the start of an intense period of mergers and acquisitions in the sector.

Unlike other industries, pulp and paper is fragmented. Together the five largest producers account for only 13 per cent of world output.

"In other areas such as carmaking or aerospace, the top five contribute 40 per cent of total output," one Enso official said yesterday. "We believe that paper must follow suit."

Certainly, rivals such as UPM-Kymmene, Europe's top manufacturer, will not sit by while Enso and Stora reap the benefits of combining their financial firepower in an industry notorious for overstretched balance sheets and high investment costs.

UPM-Kymmene has already signalled its international ambitions by acquiring Blandin Paper, one of North America's largest producers of magazine grade paper. It has also forged a fine paper alliance with Asia Pacific Resources International of Singapore.

"We have already seen the consolidation process start, but a Stora-Enso combination would go far beyond anything we have seen so far," a paper analyst said yesterday.

The enlarged group would have a commanding position in most grades of paper but particularly in LWC, coated magazine grade, where its market dominance could be used to stabilise prices.

The industrial logic looks compelling. In one leap, Enso will extend its exposure in emerging markets through Stora's existing alliances – mainly in Latin America. Stora, meanwhile, will be able to exploit Enso's domicile in a Euro-member country to reduce its transaction and invoicing costs, even though Sweden is not joining the European single currency at the start.

However, that raises questions over exactly who is propelling the deal. The initial agreement may have been reached between the largest shareholders of the companies rather than their senior management.

The Finnish government, which sold off most of the capital in Enso in the early 1990s, has been looking to reduce its voting stake of 47 per cent for some time. Investor, the main investment vehicle of Sweden's Wallenberg business empire, has also been keen to reduce its exposure to underperforming stocks.

When Percy Barnevik arrived last year as the new chairman of Investor, many commentators expected the Swedish industrialist to begin his overhaul of the Wallenberg empire at Stora. The company certainly appeared ripe for restructuring. Stora, one of the Wallenberg's oldest industrial holdings, had slipped in the 1990s from being Europe's largest paper company to third place – behind Finnish rivals UPM-Kymmene and Enso.

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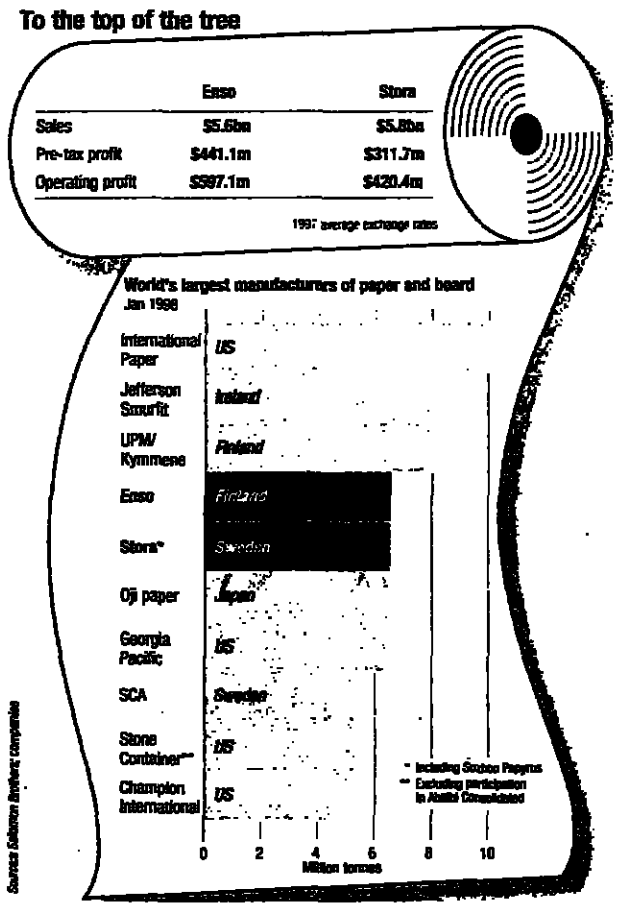
To the top of the tree

	Enso	Stora
Sales	$5.6bn	$5.8bn
Pre-tax profit	$441.1m	$311.7m
Operating profit	$597.1m	$420.4m

1997 average exchange rates



GRE reinforces position in US with $1bn buy

By Christopher Adams, Insurance Correspondent

Guardian Royal Exchange yesterday made its biggest *acquisition to date, joining a* wave of restructuring in the insurance sector.

The UK insurer is buying the US property and casualty business of ING for $1.15bn, while the Netherlands-based *financial services group* will pay $375m for Guardian's Canadian arm.

The acquisition will strengthen Guardian's position in the US Midwest and north-east, *offsetting its exposure to the competitive* UK market. The group has been under pressure to respond to restructuring by its domestic rivals, which have created businesses with more broadly based global operations.

The addition of *ING's subsidiaries*, Indiana Insurance and Peerless Insurance, will make Guardian one of the top three property and casualty insurers in the eight states that will contribute 70 per cent of the group's US revenue.

Guardian had been seeking to expand its non-standard motor business as well, but the asking prices of potential targets were too high, said John Robins, Guardian's chief executive.

The ING businesses earned net written premiums of $728m last year. They specialise in selling commercial insurance to small business as well as personal motor and household insurance. Guardian, which has been seeking to build critical mass in key overseas markets where it operates, said 400 jobs would be lost.

The reduction in staff numbers would contribute to projected annual savings of $50m *by 2000. The ING property and* casualty operations made pretax profits of $96m last year and had net assets of $587m.

Guardian was looking for a return on its investment of 12.5 per cent after three years.

The deal *was* Guardian's third significant acquisition in recent months. It bought PPP Healthcare, the UK's second biggest health insurer, in December for £435m ($726m) and acquired a South African personal lines insurer in February.

Those deals were followed by a £189m share buyback programme. Mr Robins said the group now had an "adequate" level of solvency.

But he indicated that Guardian could still benefit from an acquisition in Britain's personal motor insurance market.

For its part, ING will become one of the biggest insurers in Canada, acquiring a business that made pre-tax profits of C$47m ($33m) last year on premium income of C$525m and had net assets of C$225m. The Dutch group retains a significant life assurance and savings operation in the US, having bought Equitable of Iowa for $2.2bn in July last year.

Shares in Guardian slipped from 388p to 382p. ING, which did not trade on the Amsterdam stock market because of a holiday in the Netherlands, closed at Fl 138.1 on Friday.

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ENTERTAINMENT US AND EUROPEAN COMPANIES TO BID FOR DIVISION SEAGRAM WILL SELL AFTER COMPLETING ITS $10.6bn TAKEOVER

Strong interest for PolyGram films

By Alice Rawsthorn

Dozens of US and European companies have expressed interest in PolyGram's film division, which is to be put up for sale if Seagram's $10.6bn bid for its parent company is successful.

The sale process is expected to start later this month, once a formal valuation has been completed. However, PolyGram's own estimates are understood to value the film company's hard assets at $800m.

The business owns a 1,500-strong film library and has backed such box office hits as *Trainspotting*, *Four Weddings And A Funeral*, *Fargo* and *Bean*.

European companies, including Canal Plus and Pathé, the French media groups, have publicly affirmed their interest in the company, which is Europe's biggest film producer and distributor. However, Pierre Lescure, Canal Plus chief executive, told investors last week that he was not willing to pay $1bn for it.

Bertelsmann, the privately-owned German media group, which has extensive music and books interests, is also regarded as a potential purchaser as is Kirch, another of Germany's large media companies.

Several US investors are also interested, including financial groups and companies already involved with the entertainment industry. However, the PolyGram film business, which has yet to break even, is not seen as a suitable candidate for a leveraged buy-out bid.

Over the past seven years, PolyGram has invested over $1.2bn of the profits from its record labels in building up a Los Angeles-based film business in a bold attempt to create the first European-owned rival to the US movie studios.

Seagram is acquiring PolyGram to take over its record labels and would fold the film business into Universal, its Hollywood studio. Rather than risk a political row in Europe, Seagram has agreed to sell the film subsidiary.

Goldman Sachs has been appointed to handle the sale for Seagram and Philips, from which it is buying a 75 per cent holding in PolyGram. The PolyGram camp is represented by Société Générale Bannon.

One component of the film company's assets is the $300m of revenue owing from pre-agreed deals on existing pictures such as *Bean*, *The Borrowers* and *The Game*.

Another element is the $200m of revenue PolyGram expects to earn over the next nine months for films which have been made but not yet released, such as *Elizabeth*, with Cate Blanchett as Queen Elizabeth I, and *Notting Hill*, the *Four Weddings* follow-up starring Hugh Grant and Julia Roberts.

The 1,500-strong film library generates $65m in cash a year which, on an average industry multiple of ten times cashflow, values it at $650m. After deducting $250m of off-balance sheet financing, the company's hard assets are valued at $800m.

● Seagram is expected to announce that Doug Morris, head of its Universal Music subsidiary, will run its expanded music interests following the completion of the PolyGram acquisition.

Internet sales could become key to the music industry

Alice Rawsthorn reports on the threat to the 'big five' which are struggling to compete in a new environment

Ask a record executive to identify the burning issues facing the music industry and, apart from pontificating on Seagram's plans to restructure PolyGram, they would almost certainly say the growth of internet record sales.

It is now generally accepted that the internet will become an increasingly important distribution vehicle for music but no-one knows how important it will be. A new study by Market Tracking International (MTI), the research consultancy, addresses that issue by estimating that the internet will account for 0.1 per cent, or $87m worth, of records sold worldwide this year, and 7.3 per cent, or $3.9bn, in 2005.

MTI's findings suggest that the internet music market will grow far faster than previously expected. The critical question for the world's record companies is whether the increase in online sales will affect the balance of power in the music industry.

Since the late 1980s, nearly 80 per cent of the global music market has been controlled by six companies: PolyGram, Sony, Warner, EMI, Bertelsmann and Seagram's Universal Music subsidiary. Seagram's $10.6bn deal to buy PolyGram will turn the "big six" into the "big five". The market could become even more consolidated if Bertelsmann successfully renews its efforts to acquire the troubled EMI group.

The rationale behind these acquisitions is that, at a time when the growth in global record sales is slowing, if companies operate on a larger scale they can cut costs and enhance profitability. Yet developments in the internet music market could imperil that strategy.

At present, the online market is composed of internet record stores. These are run by established US retailers, such as Tower and Camelot; record labels, including Sony and Warner; and internet specialists, notably CD Now and Music Boulevard.

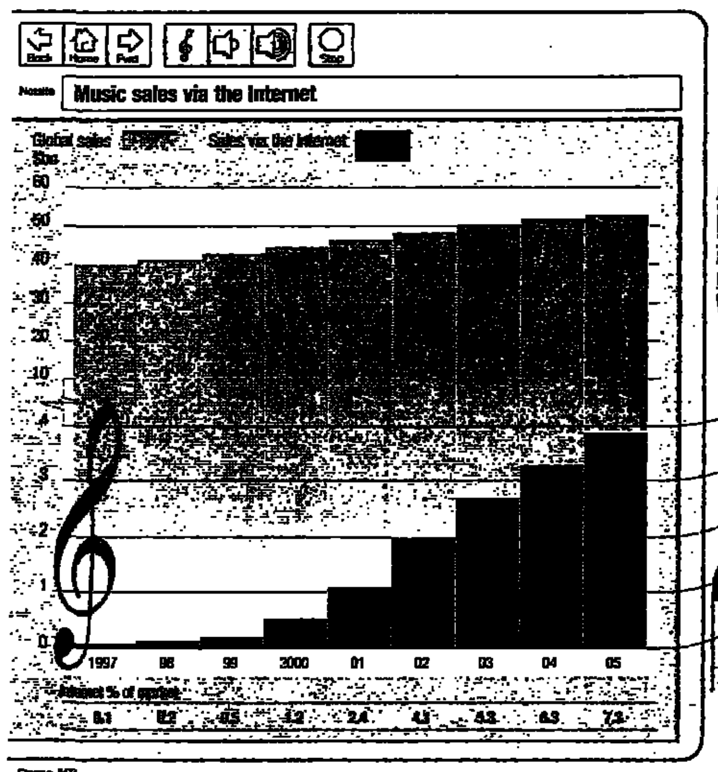
Consumers e-mail orders to these sites and their merchandise is delivered by post or courier. It is also possible to download music directly from the internet in the form of digital signals delivered to the consumer's computer, which can then be recorded on a tape or compact disc recorder.

However, established record labels and retailers are wary of becoming involved with direct downloading until adequate legal and technical safeguards have been implemented to protect their music from piracy. Except for a few experiments, it is still the preserve of pirate jukeboxes, which post up unauthorised copies of albums, or legal internet sites dealing with unrecorded acts.

Once legal and technical protection is in place, the "big five" stand to benefit from the growth of internet sales. By selling directly to consumers, they can keep the proportion of the retail price now ceded to retailers, and direct downloading will enable them to reduce manufacturing and distribution costs. MTI forecasts that direct downloading could account for up to 15 per cent of internet sales by 2005.

But there is a risk that, while the "big five" wait for the necessary legal and technical changes, pirate jukeboxes will proliferate. Another is that musicians will increasingly choose to bypass record labels by releasing their own material over the internet.

There has always been a strong anti-establishment tradition in music. Frank Zappa and the Grateful Dead launched their own self-run record labels in the 1970s. The internet's emergence as an alternative distribution vehicle will make it cheaper and easier for other musicians to do so in the future, particularly young ones who have grown up with computers.



Source: MTI

Another problem for the "big five" is that digital downloading could encourage new investors from related sectors to diversify into music. MTI suggests that telecommunications companies, technology specialists and electricity suppliers may well provide yet another source of competition for Seagram and the rest of the "big five".

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NEWS DIGEST

PHOTONIC TECHNOLOGIES

Pirelli settles patents dispute with Ciena

Pirelli, the Italian tyre and cables group, said yesterday it had reached a settlement in its legal dispute against Ciena of the US for infringement of Pirelli's optical transmission systems patents. The agreement provides for the payment by the US company of $30m to Pirelli and running royalties on future Ciena sales. Pirelli said the two parties also agreed on a non-exclusive cross-patent licence.

Pirelli, which has been a pioneer in photonic technologies for advanced telecommunications networks since the early 1990s, launched the lawsuit against Ciena in December 1996 in Delaware, asserting that Ciena products were infringing several of its patents in optical transmission systems.

Giuseppe Morchio, chief executive of Pirelli's cables and systems division, said yesterday the settlement confirmed the "international value of Pirelli's intellectual property".

Pirelli, he added, currently had a 15 per cent share of the $1bn fast-growing world photonics market involving complex optical communications systems. **Paul Betts, Milan**

TEXTILES

Count Marzotto steps down

Count Pietro Marzotto yesterday announced he was stepping down after 16 years as chairman of Marzotto, the textiles and clothing group which is one of Italy's oldest family-controlled companies. Count Marzotto will be replaced by Jean De Jaegher, a Belgian who is the company's deputy chairman.

The decision marks a break with history at the company, which has been headed by a Marzotto for the past 150 years. It also reflects the company's transition from family ownership to a public structure. Count Marzotto also told the company's annual shareholders meeting that consolidated group sales had grown by 13.8 per cent in the first four months of this year to L985bn ($561m). He said the group was expected to report double-digit sales growth this year. In 1997, group sales totalled L2,400.5bn. Profits this year would also be boosted by the disposal of non-strategic assets expected to produce a net capital gain of L24bn. Based in the north-eastern region of Vicenza, Marzotto also controls the German Hugo Boss clothing business. **Paul Betts**

ISRAEL

Discount Bank chief quits

Avraham Asheri, managing director of Israel Discount Bank, Israel's third biggest, resigned yesterday. The resignation followed pressure from the board over the bank's poor results and his failure to settle a labour dispute.

Discount's net profits plunged 50 per cent in the first quarter of 1998 to Shk33m ($9.03m), from Shk66m last year. Excluding results from its subsidiaries, Discount incurred a Shk45m loss during the quarter. For the past four months, a labour dispute has paralysed the bank after Arie Mientkavich, Discount chairman, launched a campaign to introduce reforms and break the bank's powerful workers committee.

Some analysts warn that the bank – which is 60 per cent owned by the state and is on the government's privatisation list – may collapse without radical restructuring. Discount officials declined to comment on the resignation of Mr Asheri, who served as managing director for six years.
Avi Machlis, Jerusalem

OTE posts Dr45.1bn for quarter

By Kerin Hope in Athens

OTE, Greece's public telecommunications operator, yesterday reported net profits of Dr45.1bn ($148m) on consolidated turnover of Dr207.5bn in its first quarterly reporting of results.

No comparable figures for 1997 were published, but the company said operating revenues increased 12-15 per cent.

It said digitisation of Greece's fixed-line network was being stepped up, with 700,000 new digital lines due to be installed by mid-year.

OTE estimates that digitisation, which allows calls to be time-charged, increases revenues per line by an average of 15 per cent.

Analysts said the impact of a 12 per cent devaluation of the drachma in mid-March would be felt in the second quarter. OTE's consolidated results will also be affected by a six-month delay in launching Greece's third cellular network.

The operator said CosmOte, its mobile telephony subsidiary, cut first-quarter operating expenses by Dr3.6bn and expected to have 70,000 subscribers by June.

OTE also faces problems with Telekom Serbija, the Serbian operator, in which it holds a 49 per cent stake in partnership with Telecom Italia.

The Serbian currency, the denar, has depreciated by 80 per cent since January.

OTE, which owns 20 per cent of Telekom Serbija, has already decided not to exercise an option to buy another 4 per cent from Telecom Italia.

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COMPANIES & FINANCE: ASIA-PACIFIC

ELECTRONICS TIE-UP DESIGNED TO BOOST AUDIO-VISUAL AND INFORMATION MANAGEMENT TECHNOLOGY

Sony to buy stake in JustSystem

By Alexandra Harney in Tokyo

Sony, the Japanese electronics giant, is to expand its digital home electronics business with the acquisition of a 6.7 per cent stake in JustSystem, the company that makes Japan's top-selling word processing software. The two companies said they planned to develop audio-visual and information management technology.

"We decided to enter into this tie-up based on the idea that we needed to improve our digital home electronics business, and we believe the engineering power of JustSystem will help us do this," said Nobuyuki Izui, Sony vice-president.

Sony will invest Y1.27bn ($9.2m) to buy 2m shares of JustSystem at Y637 in a third-party allotment that would give JustSystem a much-needed capital boost of Y638bn. The new shares will be issued in late July, pending legal approval.

JustSystem, which makes Ichitaro, the most popular Japanese-language word processing software, began negotiations with Sony about an equity acquisition in April in an attempt to revive earnings. The company suffered a Y5.1bn loss in net profits on sales down 30.2 per cent to Y21.8bn in the year ending in March.

The share purchase and joint technology plan will be Sony's second tie-up this year. In April, the company announced it would share software and home electronics technology with Microsoft, the US software company.

However, the tie-up with JustSystem was too small to have much impact on Sony's profitability, analysts said.

"Based on my judgment of Sony, it would not really matter whether it entered into this deal or not. I don't think anything will change," said Kimihide Takano, an electronics analyst at Dresdner Kleinwort Benson.

Following news of the tie-up, Sony's shares closed down 3 per cent, or Y380, at Y11,340. Shares of JustSystem closed at Y572 after trading in the stock was suspended before the announcement.

Sony also said yesterday it had started construction of a theme park in Tokyo. The park, which is to include cinemas and a game centre, would be completed by April 2000 at a cost of Y10bn.

Japanese oil seeks salvation in self-service

Overcapacity and deregulation are forcing companies to cut costs, writes **Alexander Harney**

Pull into the new Cosmo service station at Funabashi, Chiba Prefecture, Japan, and you might notice something missing. There is no bowing team of attendants guiding your vehicle to the pump, no smiling face at your window offering you a selection of services, no rock music to keep you entertained while you wait. Instead, you punch your choice of fuel into a computer, insert cash, and pump the petrol alone.

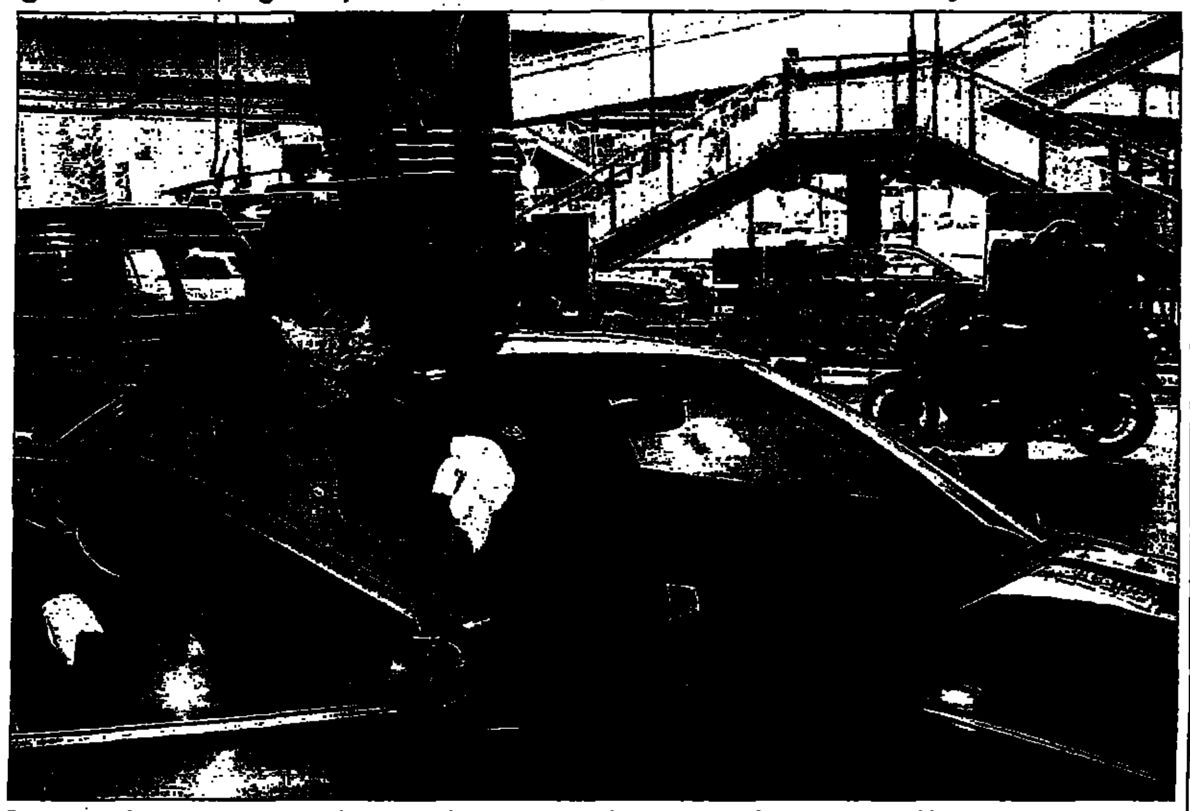
Could this solitary, stripped-down service be the answer to the Japanese oil sector's profitability problem? Some of Japan's biggest oil companies are hoping so.

Japan's oil sector is facing tough times. The industry is suffering from massive overcapacity in both refining and distribution, and the situation is likely to worsen with deregulation, which has opened the market to new imports as well as permitting self-service stations.

The industry's profitability is dire. Tax accounts, on average, for more than 60 per cent of the national average Y95 (69 cents) price of a litre of petrol. Gross margins for the operators are just Y6 a litre. Not surprisingly, more than 70 per cent of Japan's 59,000 service stations are operating at a loss.

Companies are looking for ways to cut costs and improve their profits at the pump – and the self-service concept could be the answer.

Cosmo Oil's showcase service station – which cost Y150m to build – bustles with a 24-hour convenience store, car wash and garage. Voice-guided computers direct the customer through payment, fuel selection and pumping, and each bay is equipped with a sink, mirror, and hand towels.



Pampered at the pumps: a Tokyo petrol station employee cleans a windscreen before self-service came in this year AP

Customer reactions have been mixed. Mamoru Shike, a first-time pumper, admitted he enjoyed the freedom of self-service, but Yuki Nakagawa, a station employee, said: "People ask why they have to bother with all these annoying procedures if the price is only a few yen different."

However, Cosmo, like most of Japan's big oil groups that have recently opened self-service stations, is betting lower prices and the stations' novelty will boost volumes and raise margins.

The biggest danger is that the oil companies destroy their margins through price-cutting. Discounting is already widespread, with Cosmo offering Y15 off the price of a litre.

Even with the introduction of self-service, prospects are dim for Japan's oil sector, because the industry is not prepared to undertake the fundamental restructuring it needs to remain competitive, analysts say. "There are simply too many oil companies in Japan. They need to merge and close down capacity," said Nicholas Smith, senior analyst at Jardine Fleming.

The oil groups have moved into distribution tie-ups, accelerated retirement programmes and plant closures. Nippon Sekiyu and Japan Energy, two of Japan's largest oil groups, recently announced they would share supply and distribution facilities. Nippon Sekiyu already has agreements with Idemitsu Kosan and Mitsubishi Oil that represent 10 per cent of sales, and plans to expand that proportion to 25 per cent by 2000. Showa Shell Sekiyu is considering closing its refinery in Niigata, Japan, as part of a cost-cutting strategy.

Unlike Japan's financial and telecommunications sectors, however, oil companies have resisted mergers and big job losses. Generous government subsidies have helped assuage the financial pain and prevented fundamental restructuring, say analysts. So too has the recent sharp drop in oil prices, which has reduced raw material costs.

In the glutted oil sector, the cost of building self-service stations might just be throwing more fuel on to the fire. With a price tag as high as Y300m, and strict safety regulations, the stations could be a risky investment for Japan's cash-strapped oil companies. But the lower operating costs could be a harbinger of a more scaled-back strategy the industry needs.

MAS blames loss on sharp fall in ringgit

By Sheila McNulty in Singapore

MAS, the Malaysian national carrier, blamed foreign exchange losses arising from the sharp drop in the ringgit against the US dollar for its fall to a net loss of M$259.9m (US$68m) in the year to March 31, from a net profit of M$333m a year earlier.

The loss was greater than analysts expected and was certain to pique further interest in the airline's restructuring plan. MAS said last week it would submit a new restructuring proposal to ease hardships brought by the Asian economic crisis.

The first proposal, reported in April, was primarily designed to ease the the debt burden of Tajudin Ramli, MAS executive chairman and controlling shareholder. It called for Mr Tajudin to borrow against MAS aircraft to pay what is reported to be nearly M$800m in personal debts, and, therefore, riled minority shareholders.

But Mr Tajudin insisted last week that restructuring would not be at the expense of minority shareholders.

The national carrier reported a foreign-exchange translation loss of M$3.5bn on the revaluation of long-term foreign monetary assets and liabilities. It was also hurt by a drop in passenger numbers similar to that suffered by other regional carriers as Asians cut back on tourist and business travel. The rising cost of fuel also weighed on the carrier's bottom line.

MAS expects traffic both in and out of the country to slow further if the economic crisis does not ease. It has already suspended services to several destinations and is now reviewing capacity requirements.

MAS hopes the Commonwealth Games, which are to be staged in Malaysia in September, will lift passenger numbers.

The airline's revenue increased to M$7.05bn, from M$6.48bn, but MAS posted a loss of 33.7 sen a share, swinging from earnings per share of 43.8 sen.

NEWS DIGEST

INVESTMENT BANKING

Merrill Lynch eyes Regent Pacific's Russian brokerage

Merrill Lynch, the US investment bank, is in talks to acquire the East European and Russian brokerage businesses owned by Regent Pacific, the Hong Kong-based financial services group.

According to people close to the negotiations, Merrill Lynch has indicated it is willing to pay about $30m for the businesses. Negotiations are believed to have reached the due diligence stage. Merrill Lynch declined to comment.

If Merrill Lynch successfully completed the acquisition, it would become one of the leading brokerage firms in Russia. Regent employs about 50 staff in Moscow and has a larger operation there than Merrill Lynch. Last year, it launched a fund which raised $70m for investment in Romania, Bulgaria, Croatia and Slovenia. It is also active in Ukraine.

In western Europe, Regent Pacific acted as a catalyst in the dismemberment of Hambros, the UK merchant banking group of which it was a leading shareholder.

In the wake of the Asia crisis, it has expanded selectively within its own region, spending $10m to acquire joint control of Daeyu Securities, a South Korean brokerage.

William Lewis, New York and Clay Harris, London

COMPUTERS

Data General to cut 400 jobs

Data General, the US computer company, said it would cut about 400 jobs and discontinue development of internet appliances in a move to improve profitability.

The internet products, which included a computer for hosting web sites and low-cost internet terminals, were being developed by an internal start-up group, which will be disbanded.

Data General said it would refocus its efforts on high-end business computer systems and services as well as its line of data storage products.

The Massachussets company, which was a pioneer of mini-computer technology in the 1970s, will take a $125m write-off in the third fiscal quarter, ending June 27.

The company currently employs about 5,100 people. Shares in the company were off 3 per cent in mid-session yesterday, at $14⅞, down $⅞ from Friday's close.

Louise Kehoe, San Francisco

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Harnischfeger mulls business split

By Nikki Tait in Chicago

Harnischfeger, the Milwaukee-based manufacturer of mining and paper-making equipment, is considering splitting its two main businesses between different companies in an effort to "enhance shareholder value".

It said it had called in Goldman Sachs and Merrill Lynch as advisers, and that the transaction could involve either a sale of the Beloit papermaking machinery unit, or a spin-off of one of the businesses. Other possibilities might be separate offerings of securities by one of the divisions, or strategic alliances.

The announcement follows a rough period for Harnischfeger, particularly for Beloit. The Wisconsin company lost a hostile bid for neighbouring Giddings & Lewis, one of the biggest manufacturers of machine tools last year, and then saw a slump in demand for both papermaking products and mining-related equipment as a result of the Asian crisis and low metals prices.

More recently, it revealed that it had run into specific problems in Indonesia. It said cost over-runs and possible accounting errors on a large contract for Asia Pulp & Paper would force it to take an additional $100m after-tax charge in the second quarter. It promised to instigate a "thorough review of Beloit's accounting and control functions".

Yesterday's announcement was accompanied by the release of Harnischfeger's second-quarter results, which showed the company posting a drop in first-half sales to $1.04bn, down from $1.32bn a year earlier. After-tax income for the six months to end-April before restructuring charges, anticipated losses on contracts and asset sale gains, was $14.9m compared with $64.5m previously.

However, there was also a $65m restructuring charge at Beloit, and a total $192m charge for anticipated losses associated with the Indonesian contract and for the resolution of contract disputes. This took losses for continuing operations to $97.8m, compared with a $64.5m profit previously. After adding a $151.5m asset sale gain, Harnischfeger finally emerged with a net profit of $58.1m, compared with a $75.8m profit a year ago.

The company could also face growing pressure from shareholders. The Texas-based Bass family, which is renowned for its aggressive approach to investments and willingness to take stakes in underperforming companies, recently announced it had acquired an interest of just over 5 per cent in Harnischfeger, and applied for regulatory approval to take this up to 15 per cent.

Travelers' deal maker shakes financial world

By Tracy Corrigan in New York

Travelers' ground-breaking investment in Nikko Securities is not the first bold move by the financial services giant run by the entrepreneurial Sandy Weill.

After acquiring investment bank Salomon Brothers and merging it with brokerage Smith Barney late last year, Travelers shook the US financial world when it announced its $170bn merger with Citicorp.

But Mr Weill has not been cowed by worries among some analysts that the Citicorp transaction – predicated on the realisation of cross-selling opportunities between Citicorp's banking and Travelers' insurance operations – might have been a deal too far.

So far, Mr Weill's reputation as a canny deal-maker – he built Travelers from a small shell company through a series of often cut-price acquisitions – remains intact. Even the Nikko investment is not as risky as it looks. "This is a typical Sandy deal," said one analyst. "He's getting paid to take the risk," he added, referring to Nikko's purchase of Travelers shares.

"He's guaranteed his stock price because [Nikko] has to buy his stock in the open market. This doesn't mean it's going to be a great success," said Michael Lipper, president of Lipper Analytical Services. "The risk is that it's a diversion of time and management resources."

The structure of the Travelers stake, 15.5 per cent of which is initially in the form of convertible notes exchangeable after three years, will provide initial protection against any Nikko losses and also give Travelers an option to exit. Because US companies do not consolidate earnings of other companies unless they own at least 20 per cent, Travelers' earnings are protected from Nikko losses.

"The way it's structured, the turnround [in Japan] doesn't have to happen for a while," said Raphael Soifer, analyst at Brown Brothers Harriman.

The move also suggests that Deryck Maughan, the former head of Salomon Brothers, has carved out a key role for himself under the Travelers umbrella. Mr Maughan was made co-chief executive officer of Salomon Smith Barney with Jamie Dimon, a long-time Weill protege at the time of that merger.

However, Mr Maughan, who ran Salomon's successful Tokyo office before being drafted in to take over the company after Salomon ran into trouble with a US Treasury market-rigging scandal, appears to be taking a key role in overseeing the development of Salomon Smith Barney's business outside the US. Discussions with Nikko are believed to have started in January. He arrived in Tokyo on Friday to finalise the transactions, ahead of Mr Weill's arrival yesterday to announce the deal.

Canny: Sandy Weill, right, Travelers chairman and Masashi Kaneko, president of Nikko Securities AP

The deal is different in character from Merrill Lynch's recent move to take over some of the retail brokerage assets of the defunct Yamaichi Securities. A much smaller financial investment, that deal was focused on retail distribution, while Nikko Salomon Smith Barney, the new joint venture, will focus on institutional and corporate business, though Salomon is expected to have some additional access to Nikko's distribution network.

It is expected the joint venture will initially operate alongside the Citibank corporate banking business.

The moves by Merrill and Travelers suggest that after shying away from Japan in recent years, Wall Street firms, buoyed by record profits, are ready to commit to long-term investments.

Nikko deal 'risk to jobs'

By Clay Harris, Banking Correspondent

Many of Nikko Securities' 1,050 jobs outside Japan will be at risk following its agreement to create a joint venture with Salomon Smith Barney, according to Michel de Carvalho, London-based head of Nikko's international operations.

The banks would jointly undertake a review of Nikko's 20 offices in 21 countries, Mr de Carvalho said.

"The likelihood in most areas is that operations outside Japan will operate from Salomon's premises," he said. Head of Nikko's international operations since October, Mr de Carvalho said he soon realised the delivery of international investment products to Japanese customers was not working, and the squeeze was getting worse.

Not only were Japanese institutions using US firms to provide investment products, Japanese issuers of equities and bonds were beginning to turn to outsiders for foreign distribution.

The Salomon joint venture meant "the most professional Japanese customers are now going to get the most professional international products," he said.

More than half of Nikko's staff outside Japan are employed in London. Some, such as those at Nikko Bank, were not affected by the venture, but the position of up to 450-based UK staff would be under review, Mr de Carvalho said.

He is expected later this month to become the first non-Japanese elected to Nikko's board. He will be vice-chairman of the Salomon venture, but will eventually devote time to developing Nikko's international activities in other areas.

Nucor to build its ninth US steel mill

By Richard Waters in New York

Nucor, the US mini-mill company, is a step closer to becoming the country's biggest steel producer after announcing plans to build its ninth mill, in its home state of North Carolina.

The new plant, which will have the capacity to produce 1m tons a year, will lift the company's steelmaking capacity to 12m tons. That will leave it snapping at the heels of the country's largest producer, US Steel, which puts its raw steel capacity at 12.8m tons.

The new venture will also take Nucor for the first time into production of steel plate, a higher-priced part of the market.

Nucor has steadily moved into higher-value grades of steel as it has expanded, in the process refining its steel-making process to meet more demanding quality requirements. The company was the first to produce flat-rolled steel in a mini-mill, a breakthrough that opened a large new market for its products.

Mini-mills produce steel by melting scrap in electric furnaces, rather than from iron ore and coke, as in a traditional integrated mill.

The new plant will be able to produce steel plate between ¾ and 2 inches thick and up to 120 inches wide, said John Correnti, chief executive. Such grades of steel are typically used for items such as rail carriages, ships and refinery tanks. Two other producers, Ipsco and Oregon Steel, already produce steel plate at mini-mill facilities.

The announcement of the new plant comes at a time when many US steel mills are running at close to full capacity, despite a surge in imports which has been prompted in part by Asia's currency devaluations.

"It's still a great market," said Mr Correnti. US mills have total capacity of about 100m tons, compared with annual demand of 120m tons, leaving room for low-cost producers to continue to expand their output, he added.

Nucor put the cost of the new plant, which will employ more than 300 people, at $300m.

All of Nucor's mills are in the US.

HEALTHCARE FEW QUESTION STRATEGIC RATIONALE FOR DEAL BUT RESERVATIONS ARE HELD ABOUT SHORT-TERM EARNINGS IMPLICATIONS

Wall Street sees logic in AHP/Monsanto merger

By Nikki Tait

Within hours of the $34bn merger announcement from American Home Products, the East Coast drugs and healthcare company, and Monsanto, the Midwestern life sciences group, shares in both companies were trading a shade higher.

Wall Street pundits had sufficiently few queries about the deal to allow the companies to complete an analysts' briefing yesterday well ahead of schedule.

This showed the extent to which Wall Street could see the deal's strategic rationale yet retained some reservations about the short-term earnings implications.

On the one hand, Monsanto had been touted as an acquisition candidate – not because of any immediate financial problems, but because of the scale of investment required to push into the rapidly-evolving life sciences business.

Once viewed as a rather stolid chemicals company, it spun off its chemicals businesses as a separate quoted company last year, to concentrate on biotechnology, agricultural genetics and pharmaceuticals. That left it with about $7bn in sales.

But its investment in product development jumped almost 60 per cent, or $500m, last year and was running at about $1.3bn annually. Further, it was buying heavily: last month, it acquired outstanding majority interests in two seed companies – DeKalb Genetics and Delta & Pine – for about $4bn.

These were large sums, given the size of Monsanto. As Bob Shapiro, chairman, said yesterday: "All this is being driven by the unprecedented rate of discovery in biology at present. To make sure you have a lead, you have to have a lot of cash-flow and organisation."

On the other, AHP is already a much larger company with annual sales of about $15bn, and interests ranging from prescription, ethical drugs and proprietary drugs to agriculture-related and animal health businesses.

But Jack Stafford, its chief executive, failed to reach agreement to merge his group with SmithKline Beecham earlier this year. When the deal fell apart, analysts suggested that the AHP boss would be back in the merger fray within months.

While AHP had won praise for shifting its business from a rather lacklustre line of generic healthcare products, towards more exciting new drugs such as the Duract painkiller, the need to add to that portfolio was considered paramount.

Monsanto, which includes the Searle pharmaceuticals business along with larger agricultural and food ingredients interests, was quickly in the frame.

Assuming the deal goes through, it will result in a company with about $23bn in sales, and 75,000 employees.

The new pharmaceuticals division – Searle and AHP's drugs business – will account for about half the combined group's sales. The agricultural side will contribute another $6bn. Veterinary products will add a further $1bn of revenue, with the consumer healthcare and nutrition business making up the remainder.

The two companies stressed their commitment to R&D would not diminish, and run at about $3bn a year. Salesforces will also be maintained. But they did expect cost savings of $1.25bn-$1.5bn, and declined to rule out the sale of some peripheral interests. Some job losses are also likely.

But if there is obvious strategic rationale for the deal, the financial aspects look less appealing in the short term. Mr Stafford confessed the deal would be dilutive (if the old AHP was compared with the new company) until about the year 2000. And that may explain in part the relatively muted share price reaction yesterday, with Monsanto gaining $¼ to $55¾ and AHP ahead $1/16 to $49.

Intel shares slide over chip delay

By Louise Kehoe in San Francisco

Intel's shares fell sharply yesterday as investors responded to news that the chipmaker's next generation of microprocessors, code-named Merced, will be delayed until mid-2000.

Shares of several computer companies planning to use the Merced chips in business computer systems were also down.

In a statement issued after the close of trading on Friday, Intel said it had underestimated the complexity of testing the new chips, which had been scheduled for introduction in late-1999. The chips had to be tested in a variety of system configurations and with many different types of software, the company said.

In view of the "mission critical" functions that computers based on Merced were expected to perform, such as corporate accounts and payroll systems, Intel would delay the introduction to ensure the chips were thoroughly tested.

Analysts said the delay would have little impact on Intel's 1999 results because Merced had not been expected to generate significant revenues until 2000.

However, investors took a dim view of the delay and yesterday Intel was off $2¾, or 4 per cent, at $68 11/16 in mid-session.

Hewlett-Packard, which is collaborating with Intel on the development of Merced and plans to use the chips for its next generation of business computers, slipped $1/16 to $62 in mid-session.

Shares of Compaq Computer, Unisys, Digital Equipment and several other computer companies also declined. The Merced delay will force these companies to revise their product plans.

HP reiterated its commitment to Merced and its relationship with Intel. Yesterday, HP expanded its technology and marketing alliance with Intel to include network management software. The move was seen as a further statement of support for Intel.

The setback comes at a difficult time for Intel, which faces potential anti-trust charges from the Federal Trade Commission and is being forced to adjust to a swift decline in the average selling price of personal computers.

Bank bidding battle signals end of Dutch gentlemen's agreement

ABN Amro's eleventh hour bid to beat compatriot Fortis to Générale de Banque has broken a 25-year amnesty, writes Gordon Cramb

For the first time in 25 years, two of the Netherlands' leading quoted companies are locked in a veritable public bid battle. There are no white knights and the outcome of the joust is uncertain. What is clear is that the confrontation has transformed the rules of engagement for Dutch business.

ABN Amro's Fl 24.5bn ($12.2bn) counter-offer for Générale de Banque, due to be assessed today by the Belgian banking commission, came after rival Fortis thought it had Belgium's oldest and largest financial institution in the bag. Its attempt to overturn a virtually done deal is without precedent in Dutch banking. It provides a sign that cozy corporate culture in Europe is unlikely to withstand the arrival of the single currency.

"This is remarkable. We have never seen it in the Netherlands," says one senior banker. "The example has been set and everybody will have to reckon with it. Now the euro is coming, the interests are changing."

ABN Amro, having just failed to win CIC in France, needs a second home market in western Europe. As the biggest foreign bank in the US, it also needs to be among the euro-zone leaders. Fortis, without the wider network offered by Générale, would remain a player only in the intensively banked Benelux.

The days are over when Dutch banks agreed what interest rates they would offer at industry association lunches. After an early-1990s rationalisation of the finance sector – which created both ABN Amro and Fortis through carefully crafted mergers – a handful of significant players compete enthusiastically for custom. Yet, the prospect of hostile takeovers had still caused shudders and domestic corporate clients were told that this was not the best way to spend money.

"There will be changes in business practice as a result of this case," says Arnoud Boot, corporate finance professor at the University of Amsterdam. Not least in banking, where ABN Amro may have unleashed more than it expected by disrupting the remaining consensus between its domestic peers. "If they become more antagonistic to each other, that makes it easier for foreigners" to enter a Dutch banking market where Générale has in recent years been the leading non-indigenous operator.

You could not get into Dutch banking by launching a hostile bid for ABN Amro. A foundation, of which Jan Kalff, chairman of ABN Amro, is a board member, controls more than half its capital. And no unwelcome bid for a big Amsterdam quoted company has ever succeeded. When a Dutch group made an offer abroad, it was likely to be sure of executive and key shareholder support at the target and it was left a clear run.

Jan Kalff: 'Naturally Fortis doesn't like it, but everyone has his responsibilities' Tony Andrews

That chivalry was most refined among banks.

A week ago, the only remaining old-world courtesy was a telephone call to Hans Bartelds, Utrecht-based co-chairman of Fortis, in which Mr Kalff broke the news of the counter-bid.

"I find it an unfriendly action of ABN Amro," said Mr Bartelds. Mr Kalff said bluntly: "Naturally, Fortis doesn't like it, but everyone has his own responsibilities. We have in any event played properly. I am just prepared to pay more."

But his justification went beyond that. First, the counter-bid had not been at all unfriendly because Générale's management was thought likely to back it. Second, by wooing the management, Mr Kalff was behaving in a more Dutch fashion than Fortis, which had won over only the large external shareholders. A third point went unspoken: that Fortis, a bancassurance group with twin listings in Amsterdam and Brussels, was half Belgian and should know that matters were conducted differently south of the border.

The nearest that any two Dutch banks had previously come to a bidding contest was three years ago when Mr Kalff and Aad Jacobs, who retired last week as chairman of ING, both wanted to buy assets of Barings, the failed British merchant bank. That sale, conducted discreetly by the receivers, was won by ING because it was prepared to take on the whole Barings business.

Mr Kalff, with two years to go in his job, has secured ABN Amro's standing in the US. But the last-minute challenge for Générale flies in the face of his repeated view that western European banks are too expensive.

The change of heart reflects ABN Amro's relatively weak position on its home turf, another banker argues.

It ranks biggest of the Dutch by global banking assets but not by domestic client base. The co-operative Rabobank is ahead on that – along with ING, which was granted full control of Banque Bruxelles Lambert in a Fl 9bn deal.

"If you can't get into Belgium, how can you make it in any other country?" asks Prof Boot. He argues that, fuelled by expectations for the single currency, this imperative overcame reservations harboured by Mr Kalff, a relationship banker rather than a wheeler dealer. "He personally felt definitely very uncomfortable with it. This is not the type of business culture that Kalff would like to be known for."

Not since a dual assault in 1973 on CSM, a sugar refiner, have two Amsterdam quoted companies gone head-to-head in so prominent a fashion. Improvements to national corporate governance have been in train for more than a year but barriers against takeover are to stay largely intact.

CSM shook off both of its predators and remains independent. That is not likely at Générale.

Whatever the outcome, trust among Dutch banks will not be the same. And their local corporate clients may shed inhibitions which would otherwise get in the way of securing European scale.

Rizzoli set to name Romiti as chairman

By Paul Betts in Milan

Cesare Romiti, the outgoing chairman of Fiat and one of Italy's most powerful industrialists, is expected to be appointed chairman of RCS-Rizzoli, one of the country's biggest publishing groups, today.

The move ends months of speculation about what Mr Romiti will do after he retires from Fiat on June 24. Mr Romiti announced in January he would step down after 24 years at the top of the Turin automotive group. He will be succeeded at Fiat by Paolo Fresco, number two at General Electric of the US.

After ruling out any plans to enter Italian politics, Mr Romiti had been tipped for a number of jobs, including chairman of the Compart-Montedison agro-industrial group.

At one stage he was seen as a potential chairman of Mediobanca, the influential Milan banking group and traditional ally of Fiat.

However, he was disqualified from holding a senior position in an Italian banking or insurance group following his conviction last year for falsifying accounts, which he is appealing against.

As well as becoming chairman of RCS, Mr Romiti is expected to buy a stake in the Gemina financial group, which in turn is to acquire a small stake in the HDP industrial holding. Gemina and HDP were part of the same financial and industrial holding group before they were split into separate companies.

HDP, whose chief executive is Maurizio Romiti, Mr Romiti's son, owns RCS, whose interests include Milan's Corriere della Sera, Italy's biggest-selling daily newspaper; Gazetta dello Sport, the leading sports daily; and a range of magazines and book publishing activities. RCS's sales last year were L2,475.7bn ($1.4bn) and its net profits L70.3bn.

Dresdner and Commerzbank chosen to run steel book

By Peter Norman in Bonn and Clay Harris in London

Krupp and Thyssen, the German steel and engineering groups, are expected to choose Dresdner Bank and Commerzbank as joint global bookrunners for the share exchange which will seal their merger later this year.

The role of Commerzbank, which owns 10 per cent of Thyssen, is no surprise.

The appointment of the investment bank Dresdner Kleinwort Benson, however, would indicate that its parent, Germany's second largest bank, had been forgiven by Thyssen for agreeing to help finance Krupp's original hostile bid last March.

By contrast, Deutsche Bank, Germany's largest bank which also backed the original Krupp initiative, appears to have no role.

West Merchant, the investment banking subsidiary of Westdeutsche Landesbank, which owns nearly 10 per cent of Krupp, has been given a consolation prize in the form of the mandate to handle a DM600m ($337m), eight-year bond issue. The bond, to be issued by Krupp Finance, is expected later this month, ahead of the share exchange.

Thyssen and Krupp said they were talking to banks about the share exchange but had taken no final decisions.

Dresdner and Deutsche faced a storm of protest from steelworkers and other trade unionists last year for their backing of Krupp's original offer, which was seen as breaking new ground in hostile bids in Germany. Krupp and Thyssen later reached an accommodation which paved the way for an eventual merger.

● Shares in Commerzbank ended last week higher, in spite of reporting first-quarter results in line with expectations, AFX reports from Frankfurt. However, most analysts agreed the bank remained the most likely takeover candidate among German banks.

The shares ended up DM2.3 at DM72.30.

The bank said first-quarter pre-tax profits before extraordinary items climbed 5.2 per cent to DM1.26bn. Net interest income was DM1.63bn, compared with DM1.47bn last time. Net commission income was DM788m, against DM717m in the first quarter last year.

"The results were not remarkable and did not indicate substantial growth," said an analyst at William de Broe. He added: "For the full year, we do expect a slightly better result than previously anticipated due to Commerzbank's improved trading income, lower costs and provisions."

Commerzbank expects risk provisions for 1988 to be slightly lower than a year earlier. In 1997, the bank made gross risk provisions of DM2bn, up from DM1.68bn in 1996.

ADVERTISING US GROUP TAKES HOLDING TO NEARLY 30% AND HAS PERMISSION TO CONTINUE BUYING

Clear Channel lifts More stake

By Andrew Edgecliffe-Johnson

Clear Channel Communications of the US cemented its chances of beating Decaux in the £475m ($793m) battle for More Group yesterday, by raising its stake in the bus shelter advertising group to nearly 30 per cent.

Roger Parry, chief executive of More Group, said it was "inconceivable" that Decaux could fight back, and declared the bid "all over bar the shouting".

It emerged that Clear Channel has also been given permission by More and by the Takeover Panel to continue buying beyond 30 per cent – *the normal ceiling on* stake-building during takeover bids. The panel also ruled that Decaux may not raise its conditional £532m proposed offer unless Clear Channel's bid fails.

The US media group took advantage of a fall in More's share price from £11.32½ to £11.08 to buy more shares at £11.10 – the level of its offer. Clear Channel had previously bought a 17 per cent stake, on top of which shareholders holding a total of over 5 per cent of More have accepted Clear Channel's offer.

The *share price fall* followed news after the market closed on Friday night that More Group had reiterated its recommendation of Clear Channel's £475m bid, despite Decaux's indication that it might pay £532m if it were cleared to do so by a Monopolies and Mergers Commission investigation.

Decaux said last night that its indicative proposal still stood, despite the difficulty of fighting against a recommended bidder which controls such a large stake. "Clear Channel has not got control of the company," the French group *said*.

Decaux has so far spent almost £4m on advisers' and bankers' fees. Mr Parry said: "They would be better off spending their time and money on some new street furniture."

He said More's board had given Clear Channel permission to buy more than 29.9 per cent of its shares "because we want to do anything to end the uncertainty" hanging over More.

Mr Parry said institutional shareholders had "voted with their feet" in selling at £11.10, and said none had voiced any *criticism about* the price, despite Decaux's £12.20 proposal. Those arbitrageurs who bought above £11.10 were "ill-advised and foolish," he added.

More Group's next "strategic push," he added, would be into the ambient media market – advertising on shopping trolleys, take-away cartons, toilet doors, beer mats and airships. The fragmented UK market is worth an estimated £50m – two thirds the size of the bus shelter advertising market.

GEC Alsthom expects to top £4bn

By William Lewis in New York and Andrew Edgecliffe-Johnson in London

GEC Alsthom, the Anglo-French transport and engineering group, is expected today to seek a valuation of more than £4bn ($6.7bn) when it gives details of what is likely to be Europe's largest public share offers, excluding privatisations.

Analysts had been predicting a range of up to £4bn, but the company is expected to announce that £4bn will be the bottom of the price range. The top of the range could be more than 10 per cent higher, it is believed.

The joint-venture's parent companies, the General Electric Company of the UK and Alcatel Alsthom of France, will also disclose the names of three independent non-executive directors for the board of the energy, transmission and transport business.

An Englishman, a German and a Frenchman have been selected as non-executive directors, in addition to two executives from GEC and two executives from Alcatel.

This is expected to give the group – which will be renamed Alstom – more non-French directors than any other large French company. Alstom will be chaired by a Frenchman – Pierre Bilger, its current president and chief executive.

Exact terms of the initial public offering will be revealed today at a press conference in Paris.

GEC and Alcatel are each expected to retain between 21 and 24 per cent for at least a year. The amount they retain will depend on a "green-shoe" arrangement linked to demand for the shares. They are expected to take a special dividend of about Ecu1.2bn ($1.3bn) before the float.

Taken as read: Kevin Hand, left, and Robin Miller — Ashley Ashwood

Emap looks to expand in US

By John Gapper, Media Editor

Emap, the publishing group, yesterday signalled that it was looking to expand into the United States, although it was wary about competing against financial buyers in auctions for US companies.

"If there was something there with strong development potential and strong management, then why not?" said Kevin Hand, Emap's chief executive-designate yesterday. However, he said media companies were "pretty expensive" because of competition from buy-out firms.

Mr Hand said Emap was also encouraged by growth prospects in Australia, where it launched a version of its successful For Him Magazine (FHM).

He spoke as Emap revealed a 40 per cent fall in pre-tax profits for the year to March 31, from £234.6m to £141.7m ($236.6m). However, excluding an exceptional gain of £113.5m on the sale of its regional newspapers during 1997, underlying pre-tax profits rose 17 per cent from £121.1m to £141.7m. Turnover rose 1 per cent from £768.2m to £772.6m.

Shares in the group, which is close to being included in the FTSE 100 after a rise in its market capitalisation to £2.8bn, closed 13.5p down at 1280.5p on profit-taking.

The strongest performance came in the UK consumer magazine division, where operating profit rose 25 per cent from £44.8m to £56.1m and the operating margin improved from 19 per cent to 20.6 per cent on buoyant advertising and falling newsprint prices.

Robin Miller, chief executive, said Emap had benefited from circulation rises in magazines such as FHM and Smash Hits. The group had also established a strong position in women's magazines through the launch of Red, a magazine aimed at women in their 30s.

However, he warned that Emap was unlikely to sustain such strong UK growth. "The next six months will definitely be tougher for the economy and advertising. There will still be good growth, but it will come away from these frothy conditions," he said.

Mr Hand said Emap, which recently acquired Melody Radio from Lord Hanson, was lobbying the government to relax restrictions on radio ownership.

However, it saw growth opportunities in existing consumer magazine operations in the UK and in France.

Earnings per share fell 43 per cent to 45.7p. A final dividend of 10.05p is proposed, increasing the total from 13p to 15p.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Cardiff Property	6 mths to Mar 31	0.445	(1.05)	0.24♥	(0.21)	7	(5.9)	1.1	July 31	1	-	3.1
Cardinal Business	Yr to Dec 31	24.2	(29.2)	0.209L	(16.8L♠)	-	(63.9L)	nil	-	nil	nil	nil
Columbus	Yr to Mar 31	25.5	(17.5)	3.07♠	(1.59♠)	1.25	(0.76)	0.43	Oct 2	0.27	0.59	0.37
Emap	Yr to Mar 31	772.6	(768.2)	141.7	(234.6♥)	45.7	(80.4)	10.05	Aug 7	8.7	15	13
FirstGroup	Yr to Mar 31	795	(557.3)	72.5♠	(51♠)	17.7†	(16)	4.4	Aug 28	3.7	6.6	5.5
Get	6 mths to Feb 28	30.6	(22.3)	1.38♥	(0.943♠)	5.56	(3.75)	1	July 1	0.9	-	3
Locker (Thomas)	Yr to Mar 31	63.3	(64.5)	3.81	(3.53♥)	3.45	(2.91)	0.7	July 15	0.7	1	1
Methven's ϕ	*6 mths to Mar 31*	*2.86*	*(1.98)*	*0.127♠*	*(0.102)*	*1.5*	*(2.9)*	-	-	-	-	-
Raglan Properties	Yr to Mar 31	34.4	(34.6)	6.08♥	(2.1)	3.27†	(1.4)	1.3	Apr 6	1.1	1.3	1.1
Seet	8 mths to Dec 31 ★	8.73	(7.06)	0.832L♠	(0.094L)	6.66L	(2.46L)	nil	-	nil	nil	nil
Sims Food	Yr to Mar 31	79.4	(155.4)	1.7	(27.5L)	3.9	(81.3L)	-	-	-	-	-
South Staffs Water	Yr to Mar 31	83.6	(66)	21.6	(18.1)	262	(221)	71	July 1	60	105	88
Ultraframe	6 mths to Mar 29 ☆	26.1	(21.5)	7.26♥	(3.71)	5.5	(2.7)	1.7	July 3	-	1.7	-
Wainhomes	Yr to Apr 3	109.9	(105.6)	11.1	(6.68)	12.1	(7.1)	3.75	July 31	3.25	5.25	4.75

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Govett Oriental	Yr to Mar 31	118.04	(186.77)	4.46	(2.71)	1.24	(0.75)	0.96⽕	July 10	0.47	1.16	0.67

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ϕAim stock. ☆Comparatives pro forma. ★Comparatives for 12 mths to April 30 1997. ⽕Includes 0.46p foreign income dividend.

Powerscreen reveals patent problems in US

By Robert Wright

Powerscreen International, the Northern Ireland engineer, yesterday said it knew 18 months ago that it faced patent infringement litigation which went unmentioned in its annual report.

The admission, which followed a damaging trading statement last Wednesday, is likely to fuel speculation that further problems may surface at the Dungannon-based company. Its shares yesterday fell 15p, or 14.6 per cent, to 87½p.

Powerscreen *said patent* lawyers had advised it that no patent infringement had taken place.

Yesterday's announcement referred to claims filed in the US federal district court in Boston by Read Corporation, a maker of screening equipment based in Middleboro, Massachusetts. Read, now known as Nordberg-Read, was bought last year by Nordberg Group, part of Finland's Rauma Corporation.

Powerscreen said it learned of the action in October 1996. At that point, Read had filed a complaint alleging Powerscreen's Power-Grid machines violated its patents for its Screen-All machines. Nordberg-Read has since filed a second complaint alleging Powerscreen violated its patents on the moving shaker assembly for its machines.

Court papers say only that Nordberg-Read is seeking triple damages and costs in its action, but the sum sought has been reported as $30m.

Powerscreen said yesterday: "The company has made appropriate provision for foreseeable liabilities relating to legal matters. Our statement [to the stock exchange] makes clear we believe no infringement has taken place. But we have taken a prudent position and provided for a liability, however remote."

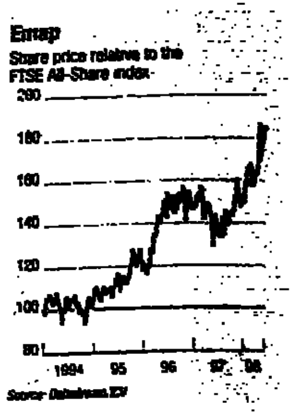
But one analyst expressed surprise at the case's omission from a list of contingent liabilities in Powerscreen's 1997 annual report.

Last Wednesday's profits warning mentioned for the first time a patent infringement case against Brown Lenox, a Powerscreen subsidiary that makes stone-crushing equipment. It also said the company now expected pre-tax losses of £65m for the year to March 1998 against the £10m losses predicted in January.

However, there has been concern that last week's announcement failed to refer to some other widely-suspected problems, including the apparent use of an Irish Republic subsidiary of Powerscreen to reduce Powerscreen's tax bill. No provision was made for settlement of that dispute in last week's announcement.

COMMENT

Emap



The bright young things who read Emap's FHM may not remember the last recession. But the greyer heads who make money out of it are urging caution. UK advertising spend as a percentage of GDP is perilously close to its 1980s high. The company managed an 18 per cent jump in underlying advertising revenues from its UK consumer magazines in 1997-98. But the trend is clear: the year started at 20 per cent and ended with 12 per cent. Emap, though, is better placed than most. First, an economic downturn tends to hit classified advertising, to which Emap has a small exposure, hardest. Second, Emap can look forward to a revival in advertising in France, home to its second-largest business. Third, Emap channelled the recent windfall from falling paper prices and rising advertising revenue into new launches and improving the existing magazines. As a result, it has gained market share while pushing up cover prices. Emap may well be heading for lower UK growth, but at least it is ahead of the pack.

Ironically, a less heated advertising market could be just what Emap needs. Its balance sheet is undergeared. Net debt stands at £149m, against an enterprise value of £2.8bn. This is not a company that likes to overpay. But a big acquisition – if and when prices cool – would be well received.

Guardian Royal Exchange

If God were creating a tidy insurance company, he would not start from where Guardian Royal Exchange is now. A long history has left it in a bewildering array of countries and industrial niches. It seems to defy the current fashions for domestic mergers, euro-zone consolidation and life assurance. Yesterday's deals make sense in terms of gaining a top three position in part of the US, while abandoning 10th spot in Canada. Now that GRE's solvency ratio is a far less flabby 65 per cent, it should focus more on pruning and less on acquisitions. With goodwill amortisation wiping out trading profit gains from the purchases, much depends on questionable growth prospects in very competitive markets. While GRE is making sense of its patchwork portfolio, underpinning its share price at 1.2 times net asset value, its unorthodox mix must make the whole less attractive to a predator than some might hope.

Siebe moves on Nemic share issue

By Paul Abrahams in Tokyo

Siebe, the UK engineering group, yesterday moved to prevent Nemic-Lambda, the listed Japanese switching company in which it holds a 50.6 per cent stake, from issuing shares that would severely dilute its stake.

The company asked the Tokyo district court to issue a temporary restraining order on the Japanese group which is proposing to issue 6.5m shares, a move that would leave Siebe with just 38.4 per cent of the company.

The 20 shareholders taking up the issue include private individuals, a manufacturer of Buddhist altars, and financial institutions such as Sanwa Bank, Dai-ichi Life Insurance and Yasuda Fire and Marine.

The judges must make a decision by June 15, when the shares are scheduled to be allocated. They must decide whether the share issue is justified by Nemic-Lambda's business plans, or whether it is merely a device to protect the management. Siebe had intended to vote Rikihiro Madarame, Nemic-Lambda's founder, chairman and president off the board at the general meeting on June 25.

Nemic-Lambda's auditors have filed a suit against Mr Madarame which alleges embezzlement. Mr Madarame, who with members of his family owns about 11 per cent of the company, is under investigation for alleged misappropriation of funds.

Nemic-Lambda insists the share issue is aimed at funding two projects that will allow the company to increase its return on equity from 2.7 per cent in 2000 to 19.6 per cent in 2004. The share allocation is despite the fact that equity is currently more expensive than debt in Japan, and the group's debts are low, at just Y5.7bn. Accordingly, many Japanese listed companies are buying back shares.

Siebe reports its results tomorrow.

Consortium to table bid for Rolls-Royce Motors

By John Griffiths

An enthusiasts' consortium making an eleventh hour bid to buy Rolls-Royce Motor Cars has yet to see the company's books, the barrister leading the consortium said yesterday.

Michael Shrimpton, who is also chairman of Crewe Motors, the enthusiasts' bid vehicle, said the group intended to place a firm offer in excess of £430m ($700m) in time for Vickers' board to consider it before an extraordinary shareholders' meeting on Friday.

The consortium, which first expressed its interest late last year, was among potential buyers issued with a memorandum of the sale by Lazard Brothers, which is handling the sale on Vickers' behalf. But it was not allowed to proceed with due diligence by Vickers, the luxury carmaker's parent, in the face of BMW's and Volkswagen's interest.

Vickers' shareholders are due to be asked to approve a £430m offer by VW, Europe's biggest carmaker, which is being recommended by Vickers over a £340m offer from BMW, VW's German rival.

The consortium aims to convince the board that the group, said to comprise both institutions and "very wealthy" individuals, is a serious contender to buy the luxury carmaker.

Mr Shrimpton said the consortium, which is advised by Butterfield Securities and the legal firm Slaughter & May, had "no problem" with preparing a higher offer than VW's and an additional £300m-plus for investment. He refused to identify consortium members, beyond saying that four directors of Crewe Motors had automotive industry experience and that one was "a former executive director of Rolls-Royce".

Mr Shrimpton also played down the threat by BMW that it will stop supplying engines to Rolls-Royce Motors if its offer is rejected. Mr Shrimpton claimed that the consortium had established the terms of BMW's contract with Rolls-Royce Motor Cars required it to give three years' notice if the company's buyer came from outside the motor industry.

Hillsdown trading 'in line'

By Andrew Edgecliffe-Johnson

Hillsdown Holdings moved to dispel speculation that its trading had fallen behind expectations yesterday, following Unigate's decision to break off talks last week about a £1.59bn ($2.65bn) bid for the food, furniture and housebuilding group.

Unigate reiterated yesterday that it had pulled out of the bidding at the eleventh hour because "we were unable to share Hillsdown's view of their prospects." Hillsdown said: "Unigate lack the understanding we have of those businesses."

Hillsdown said current internal forecasts for the full year to December "show group profits consistent with market expectations."

It added that operating profits in the first four months of 1998 "are broadly in line with those for the similar period in 1997". Some analysts said the form of words suggested that profits were slightly below those for the start of 1997.

Hillsdown would not comment on reports claiming that first quarter profits had dropped from £24.9m to £20.2m. It said poultry had suffered from over-supply and competition from cheap imports but expressed confidence in a better performance in the second half of the year.

John Parker, an analyst with BT Alex.Brown, said strong housebuilding profits could make up any fall-off in poultry, and left his full-year pre-tax profit forecast unchanged at £164.5m, compared with £153m before disposal losses in 1997.

Luxembourg

Even in a much bigger Europe, the Grand Duchy sees its diminutive stature as a boon, not a hindrance. **Neil Buckley** reports

Mother of reinvention

"The beauty of being small is that you can move quickly," says one of Luxembourg's most senior bankers, describing what has, perhaps surprisingly, become one of his country's greatest assets.

At 2,500 sq km, and little over 400,000 people, Luxembourg is certainly small. But far from being handicapped, the country has made a virtue of its size, exploiting its political and legislative fleetness-of-foot to give it a competitive advantage over its bigger neighbours and turn itself, in GDP per capita terms, into one of the world's richest countries.

Its striking economic success, plus its status as a founder members of what is now the European Union, has also helped it to continue to punch well above its weight in European politics.

Among its natural advantages are its position at the geographical heart of the European Union, at the crossroads of Latin and Germanic cultures, and a well-educated and traditionally multilingual workforce.

But its biggest achievement – and the secret of its success – has been the ability constantly to reinvent itself. And that process of reinvention is still going on.

The first step was to transform itself from tiny agrarian backwater in the 19th century into a force in iron and steel. Even today, Luxembourg-based steelmaker Arbed, through the acquisition of the eastern German steelmaker Klöckner Stahl (now renamed Stahlwerke Bremen) and last year's 35 per cent stake in Spain's CSI (now Aceralia), is Europe's biggest maker of raw steel, and the world's third biggest.

As industry declined in the 1970s, partly due to the oil price shock, Luxembourg reinvented itself as a financial centre. With almost 220 banks from 25 countries based in the Grand Duchy, and nearly 1,400 investment funds managing assets of LFr12,500bn, it is the world's 10th-largest financial centre.

Luxembourg's next reinvention was as a media centre. Compagnie Luxembourgeoise de Télédiffusion, Europe's oldest commercial broadcaster, known to millions across the continent for its RTL radio and television channels, has become Europe's biggest after its merger with Ufa, the television arm of Germany's Bertelsmann. CLT-Ufa's ambitions have been dented somewhat, however, by the EU competition authorities' rejection of its planned digital TV joint venture with Kirch in Germany.

Following the precedent set in 1931 when it allowed private investors to exploit the radio frequencies it had been allotted by international agreement – leading to the birth of CLT – the Grand Duchy allowed private operators to use orbiting satellite positions it was allocated in the 1980s. These happened to be particularly well-suited for broadcasting across Europe.

The result was Société Européenne des Satellites, operator of the Astra satellite network, which beams radio and TV channels – and now the internet – across the continent. SES now plans to float a sixth of its capital on the stock market.

Two more steps in Luxembourg's reinvention are under way. One is the attempt to follow the Grand Duchy's success in the investment fund market and turn it into Europe's pension fund centre. Draft legislation on specially-created pensions products, designed to appeal to clients EU-wide once the market is liberalised, could be law by the year end.

The next is to be the first country in the EU to put in place a fully-functioning legal framework for electronic commerce, and turn Luxembourg into a centre for the world's fastest-growing industry.

"We have the banks to handle payments settlements, Europe's biggest commercial broadcaster, and a satellite broadcasting platform all on our doorstep," says Lucien Thiel, general manager of the Association of Luxembourg Banks and Bankers. "The electronic commerce project brings together all our skills."

The government has played an important role in all these developments by working closely with industry on the legal frameworks, then speedily passing them into law. But its commitment to the "information society" does not end with laws on electronic commerce.

Jean-Claude Juncker, prime minister, in his annual state of the nation address last month, identified information technology as the "fourth factor of production". He announced a further LFr2.7bn investment in infrastructure, as well as a plan agreed with employers and unions to "confront every school pupil with the information society".

The Luxembourg P&T has already invested some LFr13bn in infrastructure in the past five years, installing 11,000 high-speed ISDN lines – making the penetration of that technology in Luxembourg among the highest in the world.

But as Mr Juncker warned in last month's address, even Luxembourg is not immune to some of the problems faced by its neighbours. Centrepiece of his speech was a LFr2bn-a-year job creation programme.

For a country with only 3.7 per cent unemployment, that has enjoyed 14 straight years of economic growth, whose companies have doubled in number from 12,300 to 23,700 in that time, and whose job creation figures exceeded the total number of unemployed last year, that may seem surprising.

The problem for Luxembourg is that cross-border commuters – making up almost a third of the entire workforce – are taking many of the new jobs that are created, leaving the Grand Duchy with the beginnings of a long-term unemployment problem. Mr Juncker's package is aimed particularly at training the young, and those without a job for an extended period.

"I had to develop a strategy to create jobs so that my country doesn't come to know the same mass unemployment as our neighbours," Mr Juncker told the FT. "We must realise that the regions surrounding us... have unemployment rates up to 15 per cent. Why should Luxembourg remain immune?"

As the single currency approaches, the issue of tax harmonisation is also causing nervousness. For Luxembourg, the figure of Mario Monti, European commissioner for the single market and financial services, is taking on growing importance.

The country is relying on him to pilot through EU ministers his proposal for a single market in pensions, enabling Luxembourg to realise its ambitions for pension funds. But Mr Monti also last month proposed a minimum withholding tax on interest and dividend income of 20 per cent across the EU.

For Luxembourg, which currently does not impose such a tax on non-residents, the proposal has potentially serious implications for its financial centre. But taxation changes require a unanimous vote among EU ministers. Luxembourg says it will wield its veto unless the withholding tax plan is accompanied by broader-ranging tax harmonisation measures encompassing corporate taxation, and other EU tax havens such as the Channel Islands.

"There is an important link between harmonisation of other tax matters, and a withholding tax," says Mr Juncker, adding that the 20 per cent proposed rate is "too high".

Privately, government and banking officials suggest they could live with a 10-15 per cent rate, provided their other conditions were met.

The fact that tiny Luxembourg still has the power to veto such legislation is proof of its continued weight within the EU. But that, too, is under review. Luxembourg's own presidency of the EU last year launched the next phase of enlargement of the Union, set to take in up to six new members by about 2005.

Enlargement will undoubtedly bring calls to curtail the powers of smaller states to prevent them clubbing together and creating blocking minorities. Luxembourg has indicated it is prepared to see less unanimity and more qualified majority voting among EU ministers, but does not want to give up its right to appoint a European commissioner. That right has led to a Luxembourger currently holding one of Europe's most powerful positions – European Commission president Jacques Santer.

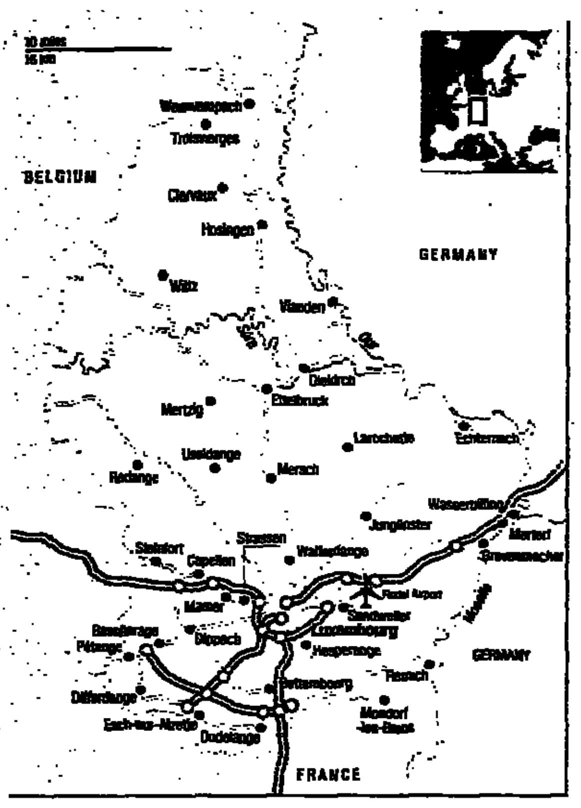
Mr Juncker sees no threat from enlargement – though he insists the EU must tackle institutional reform quickly.

- Area: 2,586 sq km
- Population: 423,800 (December 1997)
- Languages: French, German, Letzeburgesch
- Currency: Luxembourg franc (LFr) 1:1 parity with the Belgian franc
- Exchange rate: 1997 average $1 = LFr35.8; May 27 1998 $1 = LFr36.5
- Main towns and population (1997)

Luxembourg (capital)	78,300
Esch-sur-Alzette	24,800
Differdange	18,300
Dudelange	16,200

Constitution

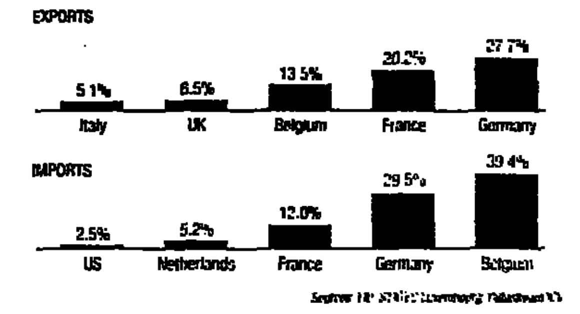
- Official name: Grand Duchy of Luxembourg
- Form of state: Constitutional monarchy
- National legislature: Chamber of Deputies of 60 members directly elected by proportional representation for a five-year term
- Electoral system: Universal direct suffrage over the age of 18
- National elections: June 12 1994; next election due by June 1999
- Head of state: Grand Duke Jean, acceded in 1964
- National government: Council of Ministers headed by prime minister (Jean-Claude Juncker) appointed by grand duke who, constitutionally, is vested with executive power. There is currently a coalition of the Christian Social Party and the Socialist Party.



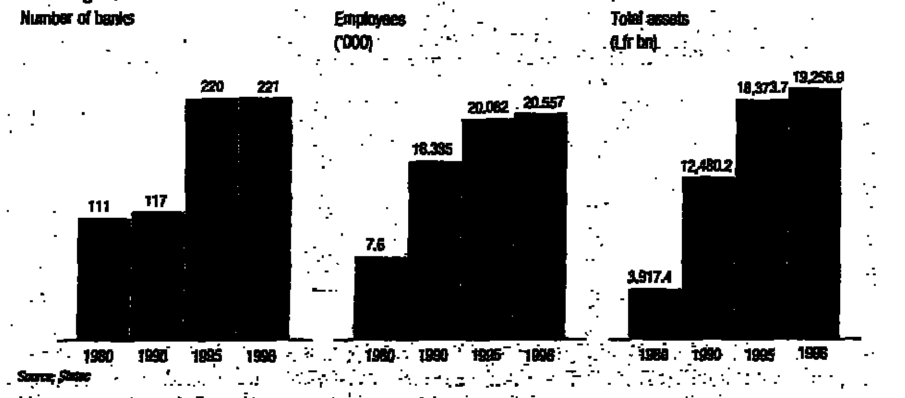
Economic summary

	1998 (estimate)	1999 (forecast)
Total GDP ($bn)	16.4	17.8
Real GDP growth (annual % change)	4.8	4.0
GDP per head ($)	38,446	40,729
Inflation (annual % change in CPI)	1.6	1.7
Industrial production (annual % change)	5.5	4.2
Unemployment rate (% of workforce)	3.4	3.5
Current account balance ($bn)	2.52	2.6
Merchandise exports ($bn)	7.8	8.6
Merchandise imports ($bn)	9.7	10.4
Trade balance ($bn)	-1.9	-1.9
Government budget balance (% of GDP)	1.0	1.6

Main trading partners (share of total trade to world 1996)



Banking sector



2 LUXEMBOURG

PENSION AND INVESTMENT FUNDS • by Neil Buckley

Push for supremacy

Grand Duchy looks to exploit its location, and investment fund expertise

After its success in becoming one of the European Union's leading centres of the investment fund industry, Luxembourg has a new ambition: to be Europe's pensions centre.

There are good reasons to believe it could realise its ambition. Today's "pay-as-you-go" pensions systems, where the present working generation funds pensions for those in retirements, is not equipped to cope with increasing life expectancy, and falling birth rates, as the "baby boom" generation reaches retirement age.

Without changes, the working generation could soon have to set aside up to half its income to pay for pensions for the elderly. Countries relying on such systems will inevitably have to switch partly to a system involving managed pension funds based on capitalisation, to which employees themselves contribute.

Luxembourg has twin advantages. It is located between three of the countries where pension funds are least well-developed: Germany, France and Belgium. Add Italy to the list, and more than two-thirds of all banks in Luxembourg are subsidiaries of banks based in these countries – providing ideal "feeder" systems into Luxembourg.

Secondly, the Grand Duchy is one of Europe's investment fund leaders, after, a decade ago, being the fastest country to implement the EU's Ucits (Undertaking for Collective Investment in Transferable Securities) directive which provided an EU-wide legal framework for funds. It now manages some 1,400 international funds.

"We are looking for the product for the next decade," says Edward de Burlet, vice-president of Banque de Gestion Edmond de Rothschild. "And pension funds could be a magnificent product, because they bring together all our different skills."

Some obstacles stand in the way, however. One is the ideological gap to be bridged in countries still devoted to what Lucien Thiel, general manager of the Association of Banks and Bankers of Luxembourg, calls the "Bismarckian" tradition of a strong and munificent social security system.

Another is the lack of the necessary European Union legislation on portability and transferability of pensions that would clear the way for Luxembourg to become pensions manager for the EU.

A third is the difficulty of creating the cross-border products themselves. They must be adaptable enough to meet the needs of clients from a variety of countries, with widely differing pensions arrangements and laws. There must also be a choice of "defined contributions" products – similar to those common in the US and UK – and "defined benefits" products, which guarantee to provide a particular level of pension income, to ease the transition for countries used to the certainties of the pay-as-you-go system.

The ideological gap is something individual countries must come to terms with themselves. Mr Thiel says, as they realise that the current system cannot continue unchanged.

But on the second problem, the lack of EU legislation, Luxembourg is hopeful ministers will reach agreement within the next two years on cross-border pensions laws – despite the failure of a first attempt seven years ago. Then, countries including France and Spain blocked the plan because they were not prepared to see the assets of their own companies' pension plan investments outside their own countries.

Mario Monti, European commissioner for the single market and financial services, has already published a green paper on pension funds. He told EU finance ministers last month that consultations on supplementary pensions had shown support for an EU law that would open up a single market for pension funds, while protecting investors' security. The pension fund market, although accounting for about 20 per cent of EU GDP, currently had no EU-wide framework, with many countries imposing a ceiling on investments abroad, or in equities, he said.

Mario Monti: green paper

When the EU law comes, Luxembourg plans to be ready – just as it was with the Ucits directive.

A plan drawn up between the Grand Duchy's banking and investment associations and consultants last year has already been converted into a bill that could be law by the end of the year.

The designers of the Luxembourg pension product decided it was too difficult to come up with a single legal instrument that could meet all the necessary requirements. Instead, they have opted for two different legal forms, one designed to cover defined contributions pensions, the other defined benefits:

- Pensions savings company with variable capital (SEPCAV)
- Pensions savings association (ASSEP)

The former is built on the model of US pension funds, designed to pay a one-off capital sum. Its aim is to earn income on assets and ensure an optimum yield for the beneficiaries, who can then use the accumulated capital as they wish when they retire. The circle of SEPCAV shareholders will be confined to the beneficiaries of the pension fund in question.

The second structure is different, in that beneficiaries of the fund are not owners or shareholders, but creditors entitled to a benefit defined in advance.

Remaining issues, notably how the pension funds will be taxed and regulated, are currently being examined, and the plan's supporters hope to get agreement soon.

The Grand Duchy knows that, however quickly it can get the legislation in place, it will face competition.

"We are not alone," says Mr de Burlet. "Everyone has seen the potential. The UK is also trying to develop a structure for a plan it can distribute across Europe."

But Luxembourg's fund managers are not looking solely to pension funds for growth. Hugh Russell, a director and member of the executive committee of Crédit Agricole Banque Indosuez, says comparisons with the US suggest there is still considerable growth in the existing investment fund industry.

Investment funds in the EU average only 20 per cent of GDP, he says, compared with 46.3 per cent in the US. The average size of investment funds, between 1987 and 1996, was $90m in Europe – less than a quarter of the $401m average in the US. In the US, investment funds represent 15 per cent of domestic equity market capitalisation; in Europe, 4.5 per cent.

Of total world funds assets of $6,193bn at the end of 1996, the US had 57 per cent, or $3,539bn – an increase in market share year-on-year – while Europe had only 28 per cent, or $1,732bn.

The conclusions, he says, are clear. "The European funds market will continue to grow in size substantially," says Mr Russell. "And the fact that Luxembourg already has the laws, the infrastructure, and the know-how means people will naturally keep coming here."

MEDIA • by Samer Iskandar

Heaven sent opportunity

Country is well placed to take advantage of advances in broadcasting

When Luxembourg's legislators, more than 70 years ago, drafted one of the most liberal broadcasting policies of the time, they could not have known they were positioning the country to become one of Europe's leaders in the end-of-century high technology media sector.

In the late 1920s, when European radio frequencies were attributed to sovereign states, following an international agreement in Geneva, Luxembourg chose to grant the rights to the private sector, rather than setting up a public sector broadcaster.

This led to the creation, in 1931, of Compagnie Générale de Radiodiffusion, Europe's first commercial broadcaster. Fast growth in the following years was backed by advertising revenues, a rare advantage at a time when most European competitors were dependent on state funds.

The audiovisual sector was also helped by Luxembourg's size and location at the centre of the European Union. With a population of just over 400,000, the domestic market offered no viable outlet, forcing participants in the sector to turn to larger neighbouring markets, notably France and Germany.

"Very early on, we realised we were at the crossroads of two cultures, two languages and two huge economies," says one executive in the industry.

CGR started broadcasting radio programmes outside its borders from 1933, starting with Germany, the Netherlands, France, Britain and Italy. Best known for its RTL radio programmes in French and German, the company became Compagnie Luxembourgeoise de Télédiffusion with the advent of television in the 1950s.

The latest change in ownership structure took place last year, with Bertelsmann, the German media group, taking a 50 per cent stake. The remaining 50 per cent of the company, now known as CLT-Ufa, is held by the Belgian group Audiofina.

Under its new structure, the group holds stakes in several high-profile radio and TV stations in the EU. These include Channel 5, the fifth terrestrial TV channel launched last year in the UK, and M6, the French channel favoured by younger viewers.

The advent of satellites in the 1980s broadened the reach of Luxembourg's media groups even further.

In 1985, Société Européenne des Satellites was founded. Best known for its Astra TV satellites, it now reaches 70m households.

A supportive government was also largely responsible for SES's ability to become Europe's largest satellite operator.

"The government's support is very important for us, because only sovereign states can apply for orbital positions and broadcasting frequencies," says one SES executive. "The company alone could not have obtained these things."

When BSkyB and the BBC start broadcasting the first digital TV programmes in the UK this summer, few of their viewers will be aware that the celestial infrastructure that made this possible is operated from SES's 18th century castle in the Luxembourg countryside. But the UK and Ireland are only part of the company's expansion plans.

SES has four satellites under construction, which are due to be launched over next two years.

"Satellite 1K [which should be launched before the end of the year] will be the most versatile of our satellites," SES says.

Technological advances will help extend the company's footprint – or reach – into central and eastern Europe, as well as increase its transmission capacity.

SES says digital technology will increase its transmission capabilities exponentially. "With analogue technology, one transponder allows us to transmit one TV channel," a company official says. "In digital form, we can transmit between six and eight channels."

Digital technology will also create new markets by allowing two-way communication between broadcasters and their audience. The result will be a blurring of the dividing lines between broadcasting and point-to-point communications (such as e-mail and telephone links).

In coming years, the transition from analogue to digital technology, which requires substantial investment, is likely to be the main challenge facing both SES and CLT-Ufa.

A big opportunity for CLT-Ufa was missed last month when EU competition regulators ruled against an ambitious project that many saw as Germany's main chance to launch digital TV.

The plan involved merging Premiere, an existing analogue pay-TV service, operated jointly by CLT-Ufa and German media group Kirch, with DF-1, Kirch's digital pay-TV service which never really took off.

The project also involved Deutsche Telekom, the partly-privatised telecommunications operator, which was to help develop the technology and run the distribution network.

SES, meanwhile, is planning to float its shares on the Luxembourg stock exchange. The transaction, expected in coming weeks, is likely to value the company at more than $3bn.

Although the company does not need the funds immediately – net profits were up 34 per cent last year at LFr6.4bn – the flotation aims to familiarise institutional investors with SES.

"The market will be prepared when we need to raise funds to develop our next generation of satellites," it says.

ECONOMY • by Neil Buckley

Focus on job creation

Another potential long-term problem to be tackled is that of pension reform

With an unemployment rate of 3.7 per cent Luxembourg would seem to have little reason to worry. Yet the centrepiece of prime minister Jean-Claude Juncker's recent state of the nation address was, perhaps surprisingly, a job creation package.

Such a move might seem all the more surprising when other statistics about the Grand Duchy are considered. Economic growth last year was 4.8 per cent – against the EU average of 2.7 per cent – and is forecast at a similar rate this year.

Public finances are also the healthiest of any EU state, with a budget surplus of 1.7 per cent of GDP recorded last year, while most other states struggled to keep their deficit inside the Maastricht target of 3 per cent. Gross public debt was 6.7 per cent of GDP, little more than a tenth of the Maastricht maximum of 60 per cent.

Employment creation averaged 3.3 per cent a year between 1985 and 1997, with a total increase in the number of jobs of 47.8 per cent over the period.

The number of people in employment increased by 6,152 in 1995, 7,974 in 1996, and nearly 7,000 again last year (more than the total number of people unemployed) to 209,423.

So why is a jobs package the new centre of the government's programme?

The answer is that many of the new jobs created do not go to Luxembourgers, but to so-called *frontaliers*, or "borderers" – cross-border commuters from neighbouring states. The number of non-resident commuters rose 8.1 per cent last year – accelerating from 7.4 per cent the previous year, to about 67,000 people, or close to a third of all those employed in Luxembourg.

These non-resident employees – 52 per cent French, about 30 per cent Belgian, and 18 per cent German – represent almost a fifth of the total number of cross-border workers anywhere in the EU.

This poses a problem for Luxembourg: to ensure its residents get the education and training needed to enable them to compete for the jobs being created by the fast-growing, mainly tertiary-sector, economy, and avoid all the jobs going to commuters from generally less well-performing surrounding regions.

Otherwise, the Grand Duchy risks developing a number of long-term unemployed, or even seeing a significant increase in the jobless total. "[We must] avoid the possibility of mass unemployment, from which we are not immune," warns Mr Juncker.

His LFr1.6bn-LFr2bn programme, to be financed largely by a LFr1 per litre increase in petrol tax, puts a heavy emphasis on education and training, and targets mainly the young and long-term unemployed. Main elements include:

- Training young people for the "information society" through a LFr100m per year programme in secondary schools
- Offering training and employment attachments to the young unemployed
- "Reinsertion" of adult unemployed into work, through attachments organised by the social partners
- Individual assessment of skills and job search plans for all the potentially long-term unemployed
- Developing a "spirit of enterprise" through measures to combat the black economy, and cutting red tape and improving access to risk capital for small and medium-sized businesses.

Discussions have also started among unions and professional associations on introducing greater flexibility into working hours, although their seems little support for a move to a French-style maximum 35-hour week.

Senior treasury officials defend the need for the jobs plan, suggesting that Luxembourg's small size, and the small number of unemployed in real terms – only 6,300 at the end of last year – means it should theoretically be able to come close to zero unemployment, as in the past. For structural reasons, they add, larger EU states consider an unemployment rate of about 7 per cent to be as low as they can get to, and equivalent to "full employment".

"If we have a 3-4 per cent unemployment rate, that's the equivalent of 10-11 per cent for some other countries," says one official.

Another potential long-term problem that Luxembourg is tackling now is pension reform.

A generous "pay-as-you-go" pension scheme, particularly for public-sector employees, with an increasing number of the labour force made up of non-residents, means the Grand Duchy is facing a demographic pensions "time bomb" after about 2010, just like its bigger neighbours.

The government decided to approach the problem in two stages, first the public sector and then the private sector.

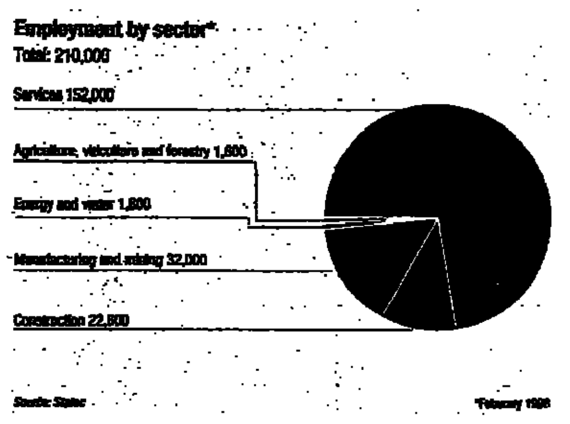
"There was no way the private sector could be tackled unless we brought the public sector more closely into line," says the treasury official.

The reason is the exceptional generosity of pensions arrangements for Luxembourg's 19,000 public-sector workers – offering five-sixths, or 83.33 per cent, of final salary after 35 years' service (usually equivalent to about 100 per cent of average salary over an employee's working life). These rewards were originally put in place to compensate for the generally lower level of public-sector salaries, and ensure a sufficient number of high-calibre recruits were still prepared to opt for the civil service over potentially lucrative banking and finance jobs.

After a year of often painful negotiations, unions have agreed to a reduction in the pension rate to about 72 per cent of final salary. Unions are still balloting their members, however, on the thorny subject of transitional arrangements for those who joined the service under the old system, allowing them to increase their final rate by working for a supplementary period, according to age and service.

Officials say the next wave of reform, affecting private-sector workers, is unlikely to be launched until after next year's general election. But they add that Luxembourg must inevitably move from the state-administered, pay-as-you-go, system, to a "mixed-pillar" system involving supplementary pensions funded by companies and employees.

That represents an important ideological and psychological change for workers long used to a generous welfare state. But the ability to adapt has always been one of Luxembourg's strong points.



PROFILE Jean-Claude Juncker

Relishing life on European stage

Crowded ash-tray to the right, tall coffee decanter to the left, Jean-Claude Juncker welcomes visitors with a breezy smile.

The prime minister of Luxembourg is running late. In one hour, he must call Chancellor Kohl of Germany. A little local difficulty in the centre-right European People's Party in which he and Mr Kohl play lead roles. Next comes his trip to Asia, via Singapore and Mongolia.

Mr Juncker plainly likes being prime minister of the Grand Duchy but what he relishes most is his stature on the European stage. In the three years since he became prime minister, he has nurtured his role as a go-between and mediator in the European Union, especially France and Germany.

The high-point was the Luxembourg presidency of the EU, which saw multiple agreements on the co-ordination of economic policy after monetary union, the candidates for eastern enlargement and a voluntary code of conduct on unfair taxation. Only a few ill-chosen words on the suitability of Turkey for membership of the Union marred a successful summit last December. Now Mr Juncker has come down to earth. He must attend to pressing domestic concerns, starting with the European Commission's new directive for an EU-wide minimum withholding tax on income from savings and investments.

The new proposals are the centrepiece of a package of measures that the Commission is tabling to tackle tax evasion before the launch of the euro on January 1, 1999. But they threaten to erode Luxembourg's jealously guarded status as a tax haven and premier financial centre. Is Mr Juncker prepared to do a deal?

"I have always said that monetary union and the single market will require greater co-ordination of tax policy, and that unfair tax competition should be stopped. But I insist on a comprehensive approach," he says.

He lists four demands. First, the withholding tax must be linked to other measures covering corporate taxation. Second, the Commission's proposed 20 per cent withholding tax is "too high". Third, the directive must cover "the full territory" of the EU, including the Channel Islands. Fourth, the Brussels proposals for the exchange of information among national tax authorities and banks is "too bureaucratic".

Mr Juncker probably realises Luxembourg is fighting a losing cause if it seeks to maintain the status quo. That is why the prime minister is pressing ahead with plans to broaden his country's economic base and reduce the dependence on the withholding tax break.

One Big Idea is to accelerate the adjustment to the information revolution. This means a costly induction course for the country's school children, but also the development of electronic commerce. A law should be ready in the next four to eight weeks, ready to exploit interest by some 400 IT companies in Luxembourg.

"We do not kid ourselves that we can be the sole electronic commerce centre in Europe," he says, "but as a small country we have the ability to take decisions quickly. As we say in Luxembourg: 'Schnellboot gegen Tank (the speed boat takes on the tank)'".

Another idea is to mobilise the Grand Duchy as a pensions centre for the rest of Europe. Mr Juncker sounds very enthusiastic, though he has yet to study the latest Commission proposals for a new directive liberalising the market.

Mr Juncker likes to portray himself as a politician who plans for tomorrow, rather than being pulled by today's events. In this respect, he is proud of his LF2bn "jobs package" which emerged after 60 hours of negotiations between the government, employers and trade unions.

Some may wonder why Luxembourg needs a jobs package with only 3.7 per cent unemployment – three times less than, say, the rate in France or Germany. But the prime minister insists that the rate could jump to 7 or 8 per cent if the European economy went badly wrong. Besides, he chaired the EU summit in Luxembourg last November which produced new EU-wide guidelines for training and job creation. "I practice what I preach," he says.

On one issue, he is unyielding: Banking secrecy. He bristles at suggestions that Luxembourg's image suffered last year after disclosures about money laundering through some of the Grand Duchy's 200-plus banks. Nor is he best pleased by criticism of Luxembourg's refusal – along with Switzerland – to endorse the Organisation for Economic Cooperation and Development's draft code of conduct to tackle tax havens.

Luxembourg, he declares, has the toughest laws on the books to tackle money laundering. Much of the criticism stems from the fact that the authorities are willing to disclose irregularities – in effect washing their dirty linen in public. As for the OECD draft, Mr Juncker says it was skewed against Luxembourg interests. "We must defend banking secrecy at all costs," he says.

Juncker: four demands

He intends to defend Luxembourg's interests in a wider EU with the same determination. He is committed to enlargement to the former communist countries of central and eastern Europe but has no illusions about the obstacles to membership, particularly regarding the need to adapt to EU-wide standards and competition from the single market. In a gentle criticism of Chancellor Kohl and President Chirac, he rejects any idea of mentioning notional dates for entry into the Union.

On institutional reform, he is open-minded. The big countries – not the smaller ones – blocked a deal last summer on the streamlining of the European Commission and the reweighting of votes in the decision-making Council of Ministers. But he insists: the EU should first agree on where it wants to go in terms of deeper political union.

"The institutions are only an instrument of our ambitions. Once you agree on the future, the rest flows," he says.

Lionel Barber

FINANCIAL SECTOR: PREPARING FOR EMU • by Neil Buckley

Euro could spark tax dilemma

The biggest threats lie in what the single currency could bring in its wake

Luxembourg views the impending arrival of the single currency calmly – but there is concern about what the euro might bring with it.

With Luxembourg's financial sector accounting for 16 per cent of gross domestic product, 20 per cent of state budgetary receipts, and 10 per cent of employment, any threat is of concern not just to the sector, but to the state itself.

Of all Luxembourg's waves of development, its policy of turning itself into a world-class financial centre has been the most successful. By the end of 1996, banking assets in the Grand Duchy were worth LFr19,257bn – a 4.81 per cent increase year-on-year – while net profits for the year were up 17.4 per cent at LFr71bn.

Transition costs to the euro – estimated by the Association of Banks and Bankers of Luxembourg (ABBL) at some LFr8bn – are not a major worry. Neither is the fact that the arrival of the single currency will mean losses of income from Luxembourg franc-denominated bond issues, and commission income on foreign exchange transactions between European currencies. All European banks face similar issues.

The biggest threats lie in what the single currency could bring in its wake. Completion of the single market by the single currency could strengthen demands for tax harmonisation – and lead, in particular, to imposition of a uniform minimum withholding tax on interest and dividend income across the EU. The absence of such a tax for non-residents is currently one of Luxembourg's attractions.

The Grand Duchy's cherished banking secrecy laws could also come under renewed scrutiny.

Pressure on the first issue seems to be growing. Within the past two weeks, Mario Monti, EU single market and financial services commissioner, has published proposals for a 20 per cent minimum rate, putting the issue squarely on the EU agenda.

Most countries impose a withholding tax of between 10 and 40 per cent on resident investors, but more than half, like Luxembourg, do not tax non-residents. Mr Monti's alternative – obliging countries that do not impose a tax on non-residents to supply details of interest and dividend income to foreign nationals' home tax authorities – is scarcely likely to be any more palatable to the Grand Duchy.

Officials say they could live with a tax, but only under very specific conditions. "We have always said we are ready to introduce a withholding tax if there is an overall move on [harmonising] corporate taxation, and EU tax havens," says one treasury official.

Such a broad-ranging approach was enshrined in the EU's "code of conduct" on tax competition, championed by Luxembourg during its EU presidency last year.

The Grand Duchy believes it will not be the only EU state that will have difficulty with the withholding tax proposal, unless the overall scope of negotiations is widened.

"These will be very difficult discussions," says the official. "But I don't think they will hinge entirely on our position. I think a number of countries have so far been very happy to hide behind our thin back."

Even if agreement on the principle of a withholding tax can be reached, negotiations on the rate could be heated. Several Nordic countries, which rely on withholding tax as an important source of revenue, and impose rates up to 40 per cent, will push for as high a level as possible. That would not be acceptable for many other countries, concerned that such a high level could cause an outflow of capital to lower-tax investment centres such as Switzerland.

Luxembourg would not accept a rate above 10 to 15 per cent, officials indicate, but banking representatives suggested such a level could be tolerated.

"I think a withholding tax is not a problem for Luxembourg, provided it is at a moderate rate," says Jacques Mahaux, a director of Crédit Agricole Indosuez Luxembourg. "Also, while interest rates remain low, you don't feel it so much."

Luxembourg's popular – but, it claims, unfair – image as a tax haven is coming under scrutiny not just in the EU, but in broader forums. The Grand Duchy and Switzerland were recently the only countries to refuse to join other members of the Organisation for Economic Cooperation and Development in launching a seven-year drive to stamp out tax havens and policies distorting international fiscal competition.

Luxembourg said the plan focused too much on bank secrecy – which it accused the OECD of trying to abolish – and not enough on broader issues of tax harmonisation. But the Grand Duchy knows that another effect of the single currency could be to focus attention, again, on banking secrecy.

It has already suffered from some high-profile investigations into allegations that its banks were being used by clients from neighbouring Belgium and Germany to avoid tax. It was also hit hard by claims that its banks were being used for money laundering by organised crime and some of the world's more unpleasant regimes.

Luxembourg has hotly denied both sets of charges. It says a new law introduced last year by the then justice minister Marc Fischbach will provide even firmer safeguards against money laundering, by broadening the definition of the crime to cover not just drugs money, but a wide variety of ill-gotten gains. The authorities can lift banking secrecy to allow investigation of even the slightest suspicion of money laundering.

Bankers add that the much-trumpeted investigations into alleged tax evasion by German and Belgian customers show little sign of producing any result.

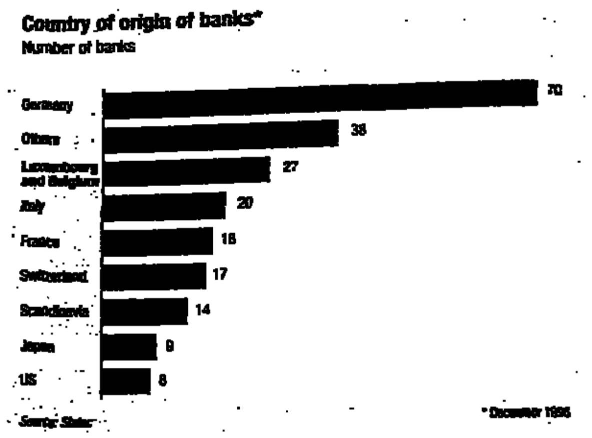
Lucien Thiel, general manager of the ABBL, suggests the bad publicity has had little long-term ill effect on Luxembourg's financial centre.

"Last year I was worried," he says, "but I think I overreacted. I think everybody realises there was a bit of a media circus, with not much behind it."

"Tens of thousands of files", he adds, were seized by the German tax authorities, but not a single trial has resulted.

However, a survey by Arthur Andersen last year indicated that a majority of bankers questioned were concerned that Luxembourg's "brand image" was becoming tarnished. The government takes every opportunity to stress the action it has taken to tighten up its laws.

But the financial sector knows it still faces the challenge of proving it has not prospered because of unfair advantages – and that it can compete in a Europe of harmonised taxes.



WINE • by Samer Iskandar

Grape expectations

High hopes are being pinned on recent marketing efforts by producers

Next autumn's harvest will produce the 10th vintage of Domaine et Tradition, a label created by an association of seven Luxembourg-based wine makers to promote higher quality.

The venture came in response to the numerous challenges facing the Grand Duchy's wine industry. These include fast-changing consumer tastes and relatively high production costs, in addition to stiff competition from better-known French products.

When the association of seven wine makers was founded in 1988, "we were already hearing about the coming of Europe and the opening of borders", says Abi Duhr, one of the managers of the family-owned business, Domaine Madame A. Duhr. "We were afraid of what the future would bring and needed a product that could compete with French wines."

Now, a decade later, Mr Duhr is confident most of the association's goals have been met. Annual production of Domaine et Tradition wines has more than doubled, from 45,000 bottles in the first year, to 100,000 last year. The name appears on the wine lists of Luxembourg's highest-rated restaurants, as well as in some of Belgium's top restaurants.

Domaine et Tradition is part of wider efforts by the industry and the authorities to promote quality and increase recognition of Luxembourg wines outside the country. High production costs have always impeded the competitiveness of Luxembourg wines.

The industry is concentrated on a 300 metre-wide strip of hills sloping towards the river Moselle. "The slopes are very steep, and even the most sophisticated tractors cannot operate on this terrain. So we have to pick the grapes by hand," one wine maker explains.

And the higher costs can hardly be recouped through higher retail prices. "Our production costs are much higher than countries such as Italy and Spain, and we do not yet have a reputation that justifies high selling prices," Mr Duhr says.

However, the sector is already starting to enjoy the benefits of recent efforts, such as the Crémant de Luxembourg appellation contrôlée, the official quality label created in 1991 for sparkling wines.

"The effects were superb," says Antoine Theisen, marketing and sales manager at Les Domaines de Vinsmoselle, a co-operative grouping which accounts for roughly 70 per cent of the country's total production. "Since the creation of the Appellation Contrôlée, Crémant has become synonymous with quality."

High hopes are also being pinned on more recent marketing efforts by producers.

This year, for example, will see another novelty, with the first ever red wine from Pinot Noir grapes. Until recently, Luxembourg produced only rosé wine from its Pinot Noir. "Rosé wine is not the most profitable," says Mr Theisen.

Red wines from the neighbouring French region of Alsace, for example, fetch prices between 30 per cent and 45 per cent higher than similar rosé wines.

Another variety that is gaining popularity is Pinot Gris, mainly at the expense of Riesling, traditionally used for the highest quality white wines.

Pinot Gris production has risen for eight consecutive years, while Riesling production fell proportionately. Mr Duhr says Riesling has been a victim of changing tastes and life styles.

"Pinot Gris wine is taking over from Riesling. Less acidic and sweeter, it goes better with today's eating habits," says Mr Duhr.

He also points out that Riesling wines get better with age. "These days, people live more and more in apartments, which have little storage space. They buy wine to consume immediately, which is not good for Riesling."

Wine experts, however, are optimistic that Riesling's decline is not irreversible. Mr Duhr believes the "consumer must be re-educated."

The industry is already spending heavily on marketing, including on an annual "Riesling Festival".

It has found an unlikely ally in the country's reputedly harsh climate.

Last year was particularly bad. Mr Theisen says the total harvest was less than half the average annual production over the previous decade. "But the 1997 vintage is of excellent quality. Its alcohol concentration is also higher than usual."

In the long run, however, conquering new markets remains the best method for raising profits.

Although Vinsmoselle already exports roughly 50 per cent of its production, 80 per cent of this goes to Belgium, and the remaining 20 per cent is divided between France, Germany and the Netherlands. "We are now looking at Scandinavia," says Mr Theisen.

Mr Duhr believes the UK market should be relatively easy to penetrate. "German wines, which are similar to ours, are already well established there," he says.

The Mediterranean coast, he says, is another possibility: "Luxembourg wines can be drunk cold, so they are pleasant in hot weather."

France, the EU's largest wine market, is also tempting, but could prove more challenging.

"French wines are so highly rated," Mr Duhr concedes, "the idea of competing with them is scary."

MARKETS • by David Cowan

Single-minded objectives

Drive is on to prepare the sector for the coming of European monetary union

Luxembourg is busily updating its infrastructure to ensure its financial market can cope with the new demands of the single European market and currency.

A key component of financial markets today is the need for an efficient machine to run them, and to reduce risk in the market, particularly in the light of various demands emanating from the European Union and the Bank for International Settlements (BIS). What this requires is the harmonisation of the central bank, the stock exchange and the clearing mechanism.

For Luxembourg, that means the Institut Monétaire Luxembourgeois, the 15-year-old body that has so far fulfilled the function of central bank, the Luxembourg Bourse and Cedel Bank.

The IML is currently converting itself from being the regulator of the Luxembourg financial centre into being Luxembourg's first central bank – which came into operation on June 1 – as required by the 1991 Maastricht Treaty. This also entails developing the kind of infrastructure that surrounds the operation of a central bank.

Pierre Jaans, director-general of the IML since its creation, retired last month, and one decision still to be made is who will head the new bank, out of the two main candidates, Yves Mersch, director of the treasury, and Jean Guill, a long-time IML director.

In the meantime, the infrastructure has largely been completed, with the creation of Luxclear as the domestic depository.

Last month, the IML announced designating the international securities depository Cedel Bank as the domestic depository for Luxembourg, both for current monetary policy operations and for the future integration of the European central banks through the TARGET payments system. The IML and Cedel Bank are also working together to develop a system for cross-border use of collateral, according to rules set by the Frankfurt-based European Monetary Institute.

As André Lussi, Cedel Bank's chief executive, comments: "We can only be successful in an environment that is successful. Within the European Union framework, Luxembourg needs a central bank, and that is what the IML is in the process of becoming. To be a central bank the IML needs a central securities depository, in order to be on the same footing as other central banks."

Mr Lussi adds: "The IML had two choices, to create a new mechanism to do this, or to work with what was already in place, and that entailed coming to us. Uniquely in Europe, we wear two hats now. As Luxclear we are the domestic depository, as Cedel Bank we are an international depository. We are the only infrastructure within Europe to play this dual role."

The Luxembourg Bourse has also sought to position itself as an efficient market capable of a new role within Europe, and in handling innovative products essential to Luxembourg's future survival as a financial centre. In this last respect, Luxembourg has been steadily attracting asset-backed securities, particularly credit-card and mortgage issues.

In terms of its efficiency and role, the bourse has been completely automated, and is has sought to carve out a position within Europe through a memorandum of agreement with the Brussels and Amsterdam exchanges, as well as playing an important role in the Federation of European Stock Exchanges. Next week also sees the bourse play host to an annual meeting of senior stock exchange officials.

By next Spring the bourse expects the three Benelux exchanges to be linked, and operating in an environment where remote members can gain access to all three markets through their own local gateway. At present, the agreement covers market information and price dissemination only.

Each exchange will retain its own settlement process, and in Luxembourg this means the use of Cedel Bank. Commenting on the IML link-up with Cedel Bank, Remy Kremer, chairman of the bourse says: "It is very valuable for us that the IML has now chosen to subcontract the task of common depository clearer to Cedel Bank."

Kremer believes that the proposed Benelux link will provide a model for Europe to integrate all the European exchanges, hitherto a proposal that has fallen down under names such as "Euroquote" and "Eurolist". Kremer observes: "I do not see the necessity of European exchanges to link, I would rather see them go along the lines of this Benelux pattern. In the long run we could see a huge communications network built up between the national exchanges, then you can forget about the political feelings, since the exchanges remain as they are."

Last December saw the launch of the On-Demand Continuous market at the Luxembourg Bourse, as an enhancement of its electronic trading system, SAM. The two developments together are the fruit of strategic measures taken by the board in 1994.

For the past two years the exchange has operated in a fully electronic and decentralised manner, resulting in increased trading volumes, rising from a total LFr34.2bn in 1995 to just over LFr300bn last year.

EURO PRICES

EQUITIES

Eastern crises dent holiday mood

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

A quiet start to the European trading week was assured because many markets – Austria, Belgium, Denmark, France, Germany, Ireland, Luxembourg, the Netherlands, Norway, Sweden and Switzerland – were closed for Whit Monday.

But those markets which did manage to open were depressed by events in Asia, where the Hong Kong and Tokyo markets both lost ground. Russia's problems also dented sentiment, with the RTS index down more than 10 per cent. But Wall Street, at least, rebounded after an early drop.

The FTSE Eurotop 100 index fell 4.66 points to 2,811.91, while the broader FTSE Eurotop 300 dropped 2.48 or 0.2 per cent to 1,227.43.

The FTSE Ebloc 100 index, the constituents of which come solely from those countries slated to become part of the single currency area next year, slipped 2.55 to 1,029.3.

European government bonds received a lift from "flight to quality" buying, and from the global deflation story, which has been intermittently popular with investors since Asia started to collapse last year.

On the equity markets, sectoral movements were inevitably dominated by UK companies, given that London was by far the largest market open.

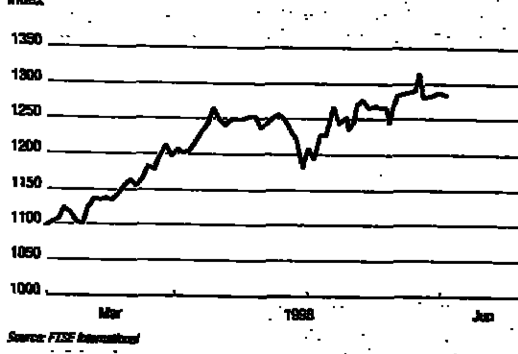
The building materials sector gained 1.9 per cent on the day, making it Europe's best performer. but the reason probably lay in the UK's new order-driven trading system, where some rogue prices prompted a sharp jump in RMC, which rose Ecu 3.70 to Ecu 20.72.

And the 1.5 per cent drop in the healthcare sector, Europe's worst, was prompted by stock in Smith & Nephew going ex-dividend and dropping Ecu 0.10 to Ecu 2.55.

The announcement of the merger between Monsanto and American Home Products in the US had remarkably little effect on the pharmaceutical sector, which was virtually unchanged on the day.

While Zeneca gained Ecu 0.90 to Ecu 37.67 on hopes for reconstruction, SmithKline Beecham, a former potential merger partner with American Home Products, fell Ecu 0.10 to Ecu 9.70.

Eurotop 300 Eurobloc
Index



Source: FTSE International

THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.765	95.760	+0.005	95.765	95.760	50	11468
Sep	95.830	95.830	-	95.840	95.830	220	16749
Dec	96.030	96.045	+0.045	96.040	96.030	28	7252
Mar	95.955	95.945	+0.035	95.955	95.945	77	5091

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
96000	0	0	0.010	0.020	0.240	0.170	0.180	0.190
96125	0				0.365			

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	2818.0	-11.0	-	-	0	959
Sep	-	2844.0	-11.0	-	-	0	5

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2725 C	2725 P	2750 C	2750 P	2775 C	2775 P	2800 C	2800 P	2825 C	2825 P	2850 C	2850 P	2875 C	2875 P	2900 C	2900 P
Jun	136	26	116	32	97	39	81	47	66	57	53	69	42	83	32	99
Jul	173	58	158	67	138	75	123	84	108	94	95	105	82	117	72	132

Est vol total 15 . Prev day's open interest total 624 . Premiums shown are based on settlement prices.

OTHER INDICES

	Jun 1	May 29	May 28	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	(c)	3322.08	3314.41	3308.00	2574.51	3308	2976.42
DJ Euro Stx 50	(c)	3357.77	3338.80	3424.55	2466.81	3424.55	2665.52
MSCI Europe	(c)	1221.44	1217.39	1248.24	980.50	1248.24	510.78

Source: Extel/part of FT information. *Subject to revision next day. (c) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

June 01

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop300	1227.43	-0.20	-2.48	1.99	14.23	1251.76
FTSE Eurotop100	2811.91	-0.17	-4.66	2.06	16.59	999.14
FTSE Ebloc100	1029.30	-0.25	-2.55	1.66	7.02	1036.43
FTSE Eurotop 300 Regions						
Eurobloc	1284.68	-0.27	-3.54	1.83	11.29	1301.38
UK	1124.77	-0.17	-1.89	2.87	19.89	1163.65
Europe Ex-Eurobloc	1181.47	-0.13	-1.52	2.36	16.02	1210.17
Europe Ex-UK	1286.53	-0.22	-2.82	1.57	11.01	1301.27
FTSE Eurotop Industry Sectors						
RESOURCES	1018.45	-0.63	-6.41	2.78	15.70	1048.89
Extractive Industries	859.85	-1.15	-10.01	3.02	0.00	859.85
Oil, Integrated	980.05	-0.60	-5.92	2.78	8.77	988.78
Oil, Exploration & Prod	1037.83	-0.71	-7.41	2.34	0.00	1037.83
GENERAL INDUSTRIES	1231.49	-0.04	-0.46	1.85	12.08	1247.58
Construction	1007.17	-0.05	-0.46	2.97	0.00	1007.17
Building Matls & Merchs	1111.98	+1.86	+20.29	2.38	0.00	1111.98
Chemicals	1061.13	-0.12	-1.23	2.11	14.73	1076.79
Diversified Industrials	1009.13	-0.06	-0.59	1.88	4.24	1013.36
Electronic & Elect Equip	1046.43	-0.35	-3.63	1.73	0.00	1046.43
Engineering	1083.54	+0.20	+2.11	2.19	1.56	1085.13
Paper, Pckg & Printing	1007.87	-0.34	-3.47	2.32	0.00	1007.87
CONSUMER GOODS	1155.85	+0.12	+1.41	1.63	10.45	1178.65
Automobiles	1076.47	-0.33	-3.54	1.02	4.99	1081.50
Alcoholic Beverages	977.27	+1.14	+11.02	2.37	1.86	979.12
Food Producers	1039.07	+0.05	+0.53	1.62	3.89	1042.86
Household Goods & Texts	1056.79	+0.04	+0.40	1.16	0.72	1067.54
Healthcare	931.94	-1.46	-13.79	2.47	9.52	941.41
Pharmaceuticals	982.46	-0.01	-0.14	1.36	1.03	983.48
Tobacco	969.65	+0.44	+4.27	4.40	1.81	971.47
SERVICES	1175.05	-0.07	-0.80	1.94	11.37	1196.11
Distribution	1011.56	-0.05	-0.48	0.98	2.70	1014.30
Leisure & Hotels	1022.53	+0.46	+4.69	2.37	0.00	1022.53
Media	1046.23	+0.24	+2.53	2.23	1.29	1047.55
Retailers, Food	986.48	+0.16	+1.60	2.06	7.01	993.55
Retailers, General	1024.84	+0.33	+3.41	2.24	6.22	1031.04
Telecommunications	998.04	-0.25	-2.48	1.70	2.31	1000.35
Breweries, Pubs & Rests	970.99	-0.13	-1.30	2.91	8.69	979.78
Support Services	1024.30	-0.77	-7.90	1.23	5.86	1030.14
Transport	1035.54	-0.80	-8.33	2.53	4.57	1040.13
Information Technology	1087.42	-0.02	-0.22	0.38	2.23	1089.89
UTILITIES	1297.64	+0.18	+2.30	3.38	36.22	1350.38
Electricity	990.94	+0.12	+1.20	3.52	14.21	1005.25
Gas Distribution	975.33	+0.34	+3.30	1.89	83.72	1064.06
Water	995.70	+0.22	+2.17	5.08	0.00	995.70
FINANCIALS	1348.39	-0.51	-6.90	1.93	17.25	1373.90
Banks,Retail	979.13	-0.57	-5.60	2.14	6.39	985.43
Insurance	981.36	-0.33	-3.25	1.36	3.70	985.05
Life Insurance	1032.42	-0.52	-5.41	2.04	3.19	1035.84
Other Financial	995.53	-1.04	-10.43	1.98	6.00	1001.50
Investment Companies	1107.00	-0.21	-2.37	2.02	10.64	1117.84
Property	876.65	-0.58	-5.10	3.08	11.15	887.87

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]					
AUTOMOBILES					
[illegible]					
BANKS RETAIL					
[illegible]					
BREWERIES, PUBS & RESTAURANTS					
[illegible]					
BUILDING MATERIALS & MERCHANTS					
[illegible]					
CHEMICALS					
[illegible]					
CONSTRUCTION					
[illegible]					
DISTRIBUTORS					
[illegible]					
DIVERSIFIED INDUSTRIALS					
[illegible]					
ELECTRICITY					
[illegible]					
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]					
ENGINEERING					
[illegible]					
EXTRACTIVE INDUSTRIES					
[illegible]					
FOOD PRODUCERS					
[illegible]					
GAS DISTRIBUTION					
[illegible]					
HEALTH CARE					
[illegible]					
HOUSEHOLD GOODS & TEXTILES					
[illegible]					
INFORMATION TECHNOLOGY					
[illegible]					
INSURANCE					
[illegible]					
INVESTMENT COMPANIES					
[illegible]					
LEISURE & HOTELS					
[illegible]					
LIFE INSURANCE					
[illegible]					
MEDIA					
[illegible]					
OIL, EXPLORATION & PRODUCTION					
[illegible]					
OIL, INTEGRATED					
[illegible]					
OTHER FINANCIAL					
[illegible]					
PAPER, PACKAGING & PRINTING					
[illegible]					
PHARMACEUTICALS					
[illegible]					
PROPERTY					
[illegible]					
RETAILERS, FOOD					
[illegible]					
RETAILERS, GENERAL					
[illegible]					
SUPPORT SERVICES					
[illegible]					
TELECOMMUNICATIONS					
[illegible]					
TOBACCO					
[illegible]					
TRANSPORT					
[illegible]					
WATER					
[illegible]					

Notes: Price data and market capitalisations supplied by FTSE International. [illegible]

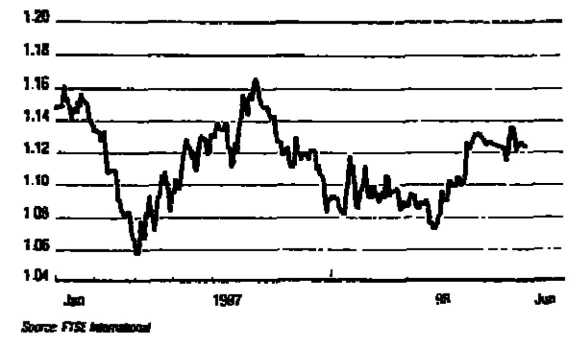
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Jun 01	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.068508	+0.0007	+0.00	+0.0029	+0.02
Belgium	BEF	41.239137	+0.0340	+0.08	+0.0275	+0.07
Czech Republic	CZK	37.387620	+0.4180	+1.13	+0.9934	+2.73
Denmark	DKK	7.616558	+0.0003	+0.00	+0.0019	+0.02
Finland	FIM	6.076288	+0.0006	+0.01	+0.0009	+0.02
France	FRF	6.703964	-0.0051	-0.08	-0.0001	+0.00
Germany	DEM	1.999375	+0.0001	+0.01	+0.0005	+0.02
Greece	GRD	341.532218	+0.0670	+0.02	+0.0420	+0.01
Hungary	HUF	240.294436	+0.2427	+0.10	+1.0499	+0.44
Ireland	IEP	0.792652	+0.0003	+0.03	-0.0016	-0.20
Italy	ITL	1970.214475	+0.1451	+0.01	-1.3485	-0.07
Luxembourg	LUF	41.239137	+0.0348	+0.08	+0.0275	+0.07
Netherlands	NLG	2.253634	+0.0006	+0.03	+0.0009	+0.04
Norway	NOK	8.448517	+0.0018	+0.02	+0.0155	+0.18
Poland	PLN	3.854836	+0.0400	+1.02	+0.0882	+2.28
Portugal	PTE	204.789057	+0.1903	+0.09	+0.0374	+0.02
Romania	ROL	9568.427587	+25.3431	+0.27	-45.9181	-0.48
Russia	RUB	6.943287	+0.0248	+0.36	-0.0401	-0.57
Slovakia	SKK	38.797054	+0.1145	+0.30	+0.2222	+0.60
Spain	ESP	169.805887	+0.1218	+0.07	+0.0109	+0.01
Sweden	SEK	8.783188	+0.0016	+0.02	+0.0518	+0.59
Switzerland	CHF	1.659538	+0.0014	+0.09	-0.0063	-0.38
United Kingdom	GBP	0.685962	-0.0017	-0.24	-0.0089	-1.28
ECU	ECU	1.014343	-0.0003	-0.03	-0.0013	-0.13
Americas						
Brazil	BRL	1.293872	+0.0040	+0.31	-0.0092	-0.70
Canada	CAD	1.635056	+0.0034	+0.21	-0.0042	-0.26
Mexico	MXN	9.997434	+0.1112	+1.12	+0.2349	+2.41
United States	USD	1.123055	+0.0017	+0.15	-0.0080	-0.71
Pacific/Middle East/Africa						
Australia	AUD	1.825413	+0.0350	+1.95	+0.0161	+0.89
Hong Kong	HKD	8.702889	+0.0132	+0.15	-0.0614	-0.70
Japan	JPY	156.812152	-1.4298	+0.92	+1.7101	+1.10
Singapore	SGD	1.904701	+0.0275	+1.46	+0.0397	+2.13
South Africa	ZAR	5.857293	+0.0754	+1.30	+0.0417	+0.72

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

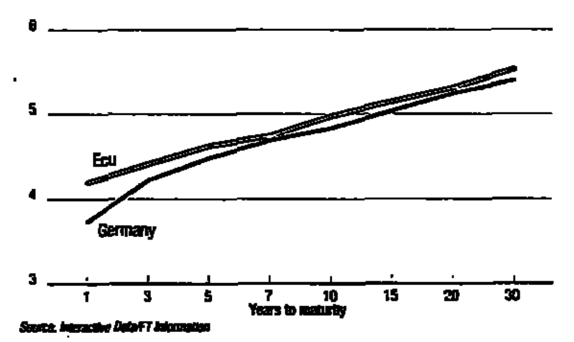
Bilateral conversion rates against the D-Mark

Jun 01	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0365	+0.01	+0.02	7.0377	3.75	-0.03
Belgium	20.6255	20.626	+0.00	-0.04	20.6313	3.76	+0.04
France	3.35386	3.353	-0.03	+0.00	3.3527	3.7	-0.02
Finland	3.04001	3.0391	-0.03	-0.02	3.0414	3.85	+0.13
Ireland	0.402676	0.3965	-1.53	-1.32	0.4017	6	+2.29
Italy	990.002	985.4154	-0.46	-0.37	991.1079	4.72	+1.00
Luxembourg	20.6255	20.626	+0.00	-0.04	20.6313	3.76	+0.04
Netherlands	1.12674	1.1272	+0.04	+0.02	1.1271	3.7	-0.02
Portugal	102.505	102.4266	-0.08	-0.07	102.6342	4.17	+0.45
Spain	85.0722	84.9295	-0.17	-0.15	85.171	4.21	+0.49
Germany	1		+0.00	+0.00		3.72	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3. forward rates are exchange rates to 31/12/98 interpolated from market quotes: forward interest rates are those implied by these forward exchange rates. Diff on rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings

BONDS

Bond yield curve
Per cent (Jun 1 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

Jun 01	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	105.640	5.01	+0.00	-0.03	+0.04
France (Rep of)	04/08	5.250	N/A	102.520	4.92	+0.00	-0.13	-0.05
Italy (Rep of)	05/08	5.000	AA	99.740	5.03	+0.00	-0.14	+0.06
Portugal (Rep of)	06/08	5.375	AA-	102.560	5.04	+0.00	-0.11	+0.07
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.790	4.68	+0.00	-0.16	+0.05
Gen Electric Cap Crp	10/04	5.500	AAA	103.580	4.83	+0.00	-0.15	+0.11
Oest Kontrollbank	04/08	5.250	AAA	101.520	5.05	+0.00	-0.16	+0.08
Cred Local de France	04/08	5.250	AA+	100.270	5.21	+0.00	-0.19	+0.24
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.360	4.52	+0.00	-0.01	+0.10
Cred Foncier France	03/04	8.375	A	115.120	5.27	+0.00	-0.04	+0.55
Euro Inv Bank	04/04	5.250	AAA	103.140	4.62	+0.00	-0.11	-0.10
ABN Amro Hldg. NV	04/07	6.375	AA-	107.660	5.27	+0.00	-0.16	+0.35

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99

GOVERNMENT BOND SPREADS vs ECU

Jun 01	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.11	-0.05	+0.06	+0.01	-0.02	-0.01
Belgium	-0.11	-0.02	+0.09	+0.04	+0.03	+0.03
Finland	-0.21	-0.03	+0.05	-0.01	-0.35	-0.57
France	-0.21	-0.13	-0.05	-0.04	-0.04	-0.08
Germany	-0.28	-0.14	-0.05	-0.14	-0.07	-0.13
Ireland	+0.76	+0.09	+0.14	+0.14	+0.11	+0.19
Italy	+0.21	+0.19	+0.21	+0.18	+0.17	+0.12
Luxembourg	-0.11	-0.02	+0.09	+0.04	+0.03	+0.03
Netherlands	-0.21	-0.12	-0.07	-0.10	-0.07	-0.11
Portugal	-0.02	+0.06	+0.10	+0.10	+0.28	+0.33
Spain	-0.10	-0.01	+0.10	+0.06	+0.16	+0.28
"OUTs"						
Denmark	+0.15	+0.15	+0.19	+0.11	+0.04	+0.12
Greece	+5.88	+4.25	+3.48	+2.78	+2.44	+2.22
Sweden	+0.24	+0.15	+0.19	+0.12	+0.10	-0.12
UK	+2.08	+1.20	+1.04	+0.66	+0.33	-0.02

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Jun 01	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	-0.06	-0.02	-0.04
France Telcom	AA+	11/06	6.250	FRF	+0.18	+0.16	+0.30
Halifax	AA	07/07	5.625	DEM	+0.14	+0.21	+0.23
Ing Bank NV	AA-	01/08	5.500	NLG	+0.15	+0.17	+0.13
Bayer Hypo W Bk	A+	02/02	6.750	ITL	+0.26	+0.34	+0.69
Cred Foncier	A	02/03	7.250	DEM	+0.28	+0.33	+0.96
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.29	+0.32	+0.57
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.26	+0.29	+0.50
Bank of China	BBB	07/99	7.125	DEM	+0.56	+0.63	+0.94
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.73	+0.64	+1.23
Korea Dev Bank	B+	11/02	5.625	FRF	+4.46	+4.48	+4.64

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

S&P slashes Pakistan's credit rating

By Edward Luce in London and Farhan Bokhari in Islamabad

Standard & Poor's yesterday added to Pakistan's woes with its decision to slash the country's sovereign credit rating by two notches to B minus.

The move, which puts Pakistan on a level with the least creditworthy countries in the world, follows international condemnation of the country's decision to conduct six nuclear tests last week.

The credit rating agency said Pakistan's access to foreign exchange credit would be severely hampered by the US-led sanctions that will be imposed as a result of the tests.

More than 80 per cent of the country's $30bn external debt finance is from either bilateral or multilateral lenders. Most of this, including $2.5bn in planned official disbursements this year, would be affected by the sanctions, said the agency.

In addition, the release of the next tranche of the $1.6bn in International Monetary Fund assistance would be either delayed or cancelled.

"With contingency arrangements unlikely to bridge the resulting gap, Pakistan will be forced to curb official development spending, capital goods imports and investment activity," said S&P.

The agency, which also downgraded Pakistan's short-term foreign currency rating from B to C, said its sovereign rating was on credit watch for further downgrade. It said Pakistan had exacerbated the situation by freezing $13bn of resident and non-resident foreign currency deposits last week. This would "discourage future capital flows and may provoke capital flight".

Pakistan's external vulnerability is exacerbated by its low international foreign exchange reserves which, at about $2bn, were equivalent to just 20 per cent of the amount of external debt falling due this year.

S&P predicted its budget deficit would exceed 5 per cent of GDP in 1998 for the sixth consecutive year, while economic growth would slow dramatically.

Ishfaque Khan, chief economist at Pakistan's finance ministry in Islamabad, yesterday sought to play down growing concern about the country's economic outlook.

"There is no reason to panic," he said. "When the market hears the self-reliance strategy [a new economic plan the government plans to unveil this week], things will stabilise."

Analysts, however, said freezing foreign currency accounts had badly undermined foreign confidence. Ali Jamil, senior analyst at Karachi's Jehangir Siddiqui brokerage, said: "The measure on the foreign currency accounts has frightened a lot of people who were holding out until now in the hope that such extreme measures could be avoided."

But Farrukh Khan, chief executive of BMA Capital, another brokerage, said Mr Sharif could stem the slide in confidence if the economic plan included measures to cut losses in the public sector and incentives for the equity market.

Gilts reach all-time high

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Prices powered ahead at the start of the week as Asian stock markets withered, the dollar nudged seven-year highs against the yen, and investors scurried for safe havens.

In the UK, gilts reached all-time highs as the fall-out from Asia continued to rattle markets, with the 10-year benchmark issue rising 0.33 basis points on the cash market while the yield fell to 5.54 per cent, a 30-year low.

Records were also broken in Japan, where government bond yields posted another low.

Holidays across much of continental Europe failed to cool government bond investors, who were encouraged by the continuing absence of inflationary concerns in the US and Europe, and the perceived deflationary effects of the rolling financial crisis in Asia.

In Russia, shares fell more than 10 per cent as unfulfilled expectations of emergency financial support from abroad for the country's stricken markets deepened the gloom.

"There's been more emerging market mayhem. There is a sense of nervousness about emerging markets that's making people nervy about being involved in any of them," said Kit Juckes, head of bond and currency strategy at NatWest Capital Markets.

However, with bond yields at their lowest for some time, many economists suggested the rally could encounter resistance this week.

"We're coming to a trough in yields. I don't think we can move much lower than we are at the moment. You have to draw a line in the sand. Much below 5 per cent and I would not be a big buyer of the [German] bund or OAT [French government bond]," said Neil Parker, treasury economist at Royal Bank of Scotland.

Fresh evidence that the US economy was slowing helped send US TREASURY prices higher in early afternoon trading.

The 30-year bond, the benchmark for long-term interest rates, climbed ¾ to 104⅞, sending the yield down to 5.776 per cent.

In the shorter-term sector, the two-year note was [illegible] higher at 99[illegible], yielding 5.517 per cent, while the 10-year note rose [illegible] to 100[illegible], yielding 5.534 per cent.

In a morning release, the National Association of Purchasing Management said its index had fallen to 51.4 in May from 52.9 in April.

The news pushed Treasury prices higher but sellers also came into the market, taking some of the steam out of the morning rally.

Bond investors will have a series of new economic data to sift through this week. Today, figures will be released on new home sales and on Friday a new employment report is expected.

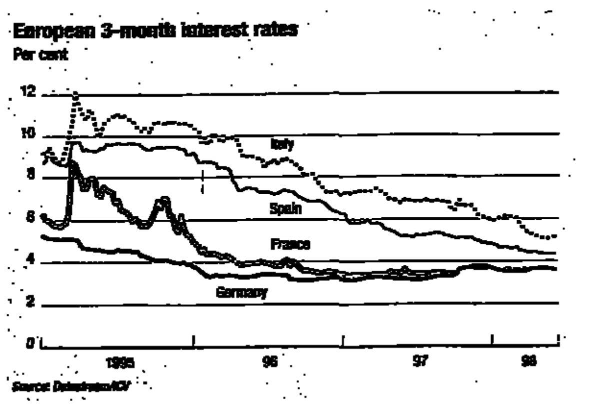
"The purchasing managers' figures are consistent with the idea that manufacturing is slowing and that Asia has played a part. But the bigger picture is that domestic demand is still firm and economic conditions are consistent with the labour market being tight – and that's the principal focus of the Federal Reserve," said Mr Parker.

In UK GILTS, the September future settled 0.32 basis points higher at 110.18, off a 110.34 high. The spread over German bunds narrowed 2 basis points to 90 points from Friday's level.

The September contract yesterday became the benchmark contract, but volume was light, with 60,000 contracts traded.

The Council of the European Central Bank is expected to hold its inaugural meeting today but is not scheduled to discuss interest rate convergence.

European 3-month interest rates



Source: Datastream/ICV

NTT to issue domestic bond

By Michiyo Nakamoto in Tokyo

NTT, Japan's largest telecoms company, is preparing a Y100bn domestic bond issue in a move that highlights the growing trend among Japanese corporations to look to the capital markets for funds.

NTT said yesterday it was preparing the bond issue as part of efforts to raise funds amounting to about Y400bn this year.

It will use part of the proceeds for investments, but the main purpose of the issue is to roll over outstanding corporate bonds. NTT said it already had access to sufficient internal funds to cover capital spending.

It denied the bond issue, one of the larger domestic issues this year, had been triggered by a credit squeeze by Japanese banks.

As a result of new, tighter international capital adequacy standards, Japan's banks have been cutting their asset bases. As a result, lending by Japanese banks fell 1.9 per cent, the largest drop this decade.

This year, Mitsubishi Heavy Industries issued Y100bn in straight bonds for the first time in six years, saying it could not borrow sufficient funds from banks. Vehicle maker Toyota also floated a Y200bn issue – the largest such deal in Japan.

As a result of growing interest among Japanese companies, the value of straight corporate bond issues reached a record Y8,700bn in fiscal 1997, a 54 per cent increase over 1996.

The trend is expected to continue as the ageing of the Japanese population and the need for more efficient allocation of capital to maintain competitiveness spur government efforts to stimulate the capital markets.

NEWS DIGEST

EMERGING MARKETS

Volatile conditions put new issuance on hold

Emerging market new issues were on hold yesterday, in volatile and shallow market conditions. "Thailand has postponed its bond," one dealer said. The country had planned to launch a dollar bond of up to $2bn, with a five to 10-year maturity, but Tarrin Nimmanahaeminda, finance minister, warned that Asia's deepening financial crisis could delay the deal. Goldman Sachs was tipped as lead manager. "Until the Russian situation is resolved, we are unlikely to see anything, clients are just not buying at the moment," said one trader.

South Africa, meanwhile, kicked off a roadshow for a forthcoming bond. Presentations this week will start in Milan and end in London on Friday. Bankers said it was unlikely the country would be able to launch a bond in the short term unless it paid a significant premium. "South Africa would struggle to get anything done in the next month, although if it's cheap enough it would sell," a syndicate official said.

South Africa plans to issue roughly E500m of paper with a seven-year to 10-year maturity. J.P. Morgan and CSFB will be joint lead-managers.

Jamaica is also expected to launch a dollar bond this week. It is planning to issue $250m of securities with a maturity of between seven and 10 years. Citibank is lead manager.

Ion Sturza, Moldova's deputy prime minister, said yesterday the former Soviet republic had cancelled a planned issue. He said market conditions made the deal too expensive.

In Romania, Daniel Daianu, the country's finance minister, said his ministry was planning to raise about $200m in five-year or seven-year bonds. "The timing of the issue will depend on conditions in the international capital markets," he said. He added that the issue might be launched next month "if spreads are convenient". Reuters

WIDENING YIELD SPREADS

Latin American plans disrupted

The widening of yield spreads on emerging market paper prompted by recent jitters over Russian and Asian economic woes will disrupt Latin American governments' financing plans, the Inter-American Development Bank said yesterday.

Ricardo Hausmann, IDB chief economist, told a conference in London on Latin American markets he hoped a 70 basis point widening in yield spreads over US Treasuries seen in the past two weeks would narrow again if markets recovered. "It has become a little expensive in the past few weeks. But once we get over these hiccups we'll get back to the situation in the first quarter. At those spreads the issue of finance will not be a problem," he said.

Mr Hausmann added that one encouraging sign was that prior to market turmoil in Asia, the market had allowed some Latin American countries to lengthen the maturities on their debt – notably Argentina. However, he warned that governments needed to adopt stricter debt management practices, including injecting more political accountability into the process. Jeremy Grant

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jun 1	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	104.0862	4.88	−0.07	−0.28	−0.33	−1.02
	10/07	10.000	134.2398	5.27	−0.06	−0.27	−0.43	−2.21
Austria	09/99	7.000	103.6300	4.04	−0.01	−0.08	−0.11	+0.07
	07/07	5.625	105.0300	4.92	-	−0.06	−0.08	−1.00
Belgium	01/00	4.000	99.8600	4.08	-	−0.10	−0.11	+0.34
	03/07	6.250	109.0300	4.96	-	−0.05	−0.04	−1.05
Canada	09/99	4.750	99.5400	5.12	−0.02	−0.02	+0.07	+0.63
	06/07	7.250	113.7000	5.30	−0.01	−0.07	−0.03	−1.21
Denmark	12/99	6.000	102.2800	4.39	-	−0.27	−0.10	+0.39
	11/07	7.000	114.1800	5.07	-	−0.14	−0.12	−1.32
Finland	01/99	11.000	104.2745	3.72	−0.02	−0.08	−0.05	−0.02
	04/08	7.250	115.3110	4.86	−0.04	−0.07	−0.08	−1.37
France	01/00	4.000	99.9800	4.00	-	−0.09	−0.15	+0.24
	10/04	6.750	111.4900	4.63	-	−0.07	−0.14	−0.72
	10/07	5.500	104.5700	4.88	-	−0.07	−0.13	−0.90
	10/25	6.000	107.9400	5.43	-	−0.05	−0.10	−1.24
Germany	08/99	4.000	100.1400	3.87	-	−0.08	−0.12	+0.28
	11/04	7.500	115.5700	4.64	−0.03	−0.11	−0.07	−0.85
	07/07	6.000	108.4000	4.83	−0.04	−0.10	−0.08	−1.09
	07/27	6.500	116.0900	5.39	−0.03	−0.09	−0.07	−1.32
Ireland	04/99	6.250	100.6500	5.38	-	+0.21	+0.37	−0.59
	08/06	8.000	119.0200	5.10	-	−0.04	−0.01	−1.60
Italy	05/00	6.000	102.7900	4.48	+0.01	−0.04	−0.07	−2.10
	06/02	6.250	105.5900	4.88	−0.01	−0.07	−0.13	−2.20
	07/07	6.750	112.2400	5.05	−0.01	−0.07	−0.12	−2.38
	11/26	7.250	123.9700	5.56	−0.02	−0.07	−0.12	−2.44
Japan	03/00	6.400	110.6700	0.39	−0.07	+0.02	−0.11	−0.72
	12/02	4.800	117.7200	0.81	−0.03	−0.02	−0.23	−1.20
	09/05	3.000	112.3300	1.22	−0.05	−0.05	−0.28	−1.32
	09/17	3.000	114.8000	2.07	−0.04	−0.06	−0.28	−1.22
Netherlands	11/98	7.500	104.8100	3.99	−0.03	−0.08	−0.10	+0.18
	02/07	5.750	106.5600	4.81	−0.02	−0.09	−0.09	−0.98
New Zealand	02/00	6.500	98.8836	7.19	+0.01	−0.37	−0.50	+0.02
	11/06	8.000	109.8329	6.44	+0.02	−0.15	−0.33	−1.04
Norway	01/99	9.000	102.5300	4.89	−0.02	+0.10	+0.46	+0.86
	01/07	6.750	108.4000	5.49	-	−0.03	+0.09	−0.59
Portugal	03/99	8.500	103.3100	4.17	−0.01	−0.05	−0.07	−1.06
	02/07	6.625	111.0867	5.02	+0.01	−0.07	−0.09	−1.46
Spain	07/99	7.400	103.5800	4.14	−0.03	−0.08	−0.04	−1.03
	03/07	7.350	116.5874	4.98	−0.02	−0.08	−0.13	−1.71
Sweden	01/99	11.000	103.9570	4.37	−0.03	−0.18	−0.32	−0.56
	08/07	8.000	121.2530	5.05	-	−0.07	−0.20	−2.01
Switzerland	03/00	5.000	105.4500	1.84	-	−0.11	−0.07	+0.38
	06/07	4.500	113.0000	2.85	-	−0.18	−0.24	−0.54
UK	08/99	6.000	99.3125	6.60	−0.01	−0.09	+0.07	−0.23
	11/04	6.750	105.1094	5.79	−0.03	−0.15	−0.03	−1.34
	12/07	7.250	111.5938	5.66	−0.04	−0.17	−0.08	−1.53
	06/21	8.000	130.7813	5.60	−0.05	−0.17	−0.09	−1.65
US	10/99	5.625	100.0780	5.56	−0.01	−0.08	−0.02	−0.84
	11/04	7.875	112.0940	5.61	−0.03	−0.11	−0.11	−0.89
	08/07	6.125	103.3200	5.66	−0.01	−0.07	−0.07	−1.00
	08/27	6.375	107.6250	5.83	−0.03	−0.12	−0.15	−1.08
ECU	01/00	4.000	99.8600	4.21	-	−0.03	−0.06	−0.01
	04/07	5.500	104.1700	4.91	-	−0.06	−0.14	−1.29

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jun 1	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.27	+0.44	−0.26
Austria	4.98	+0.15	−0.55
Belgium	5.01	+0.18	−0.52
Canada	5.30	+0.47	−0.23
Denmark	5.08	+0.25	−0.45
Finland	4.96	+0.13	−0.57
France	4.93	+0.10	−0.60
Germany	4.83	-	−0.70
Ireland	5.11	+0.28	−0.42
Italy	5.15	+0.32	−0.38
Japan	1.23	−3.60	−4.30
Netherlands	4.87	+0.04	−0.66
New Zealand	6.44	+1.61	+0.91
Norway	5.52	+0.69	−0.01
Portugal	5.07	+0.24	−0.46
Spain	5.05	+0.22	−0.48
Sweden	5.09	+0.26	−0.44
Switzerland	2.85	−1.98	−2.68
UK	5.63	+0.80	+0.10
US	5.53	+0.70	-
ECU	4.97	+0.14	−0.56

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Jun 1	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB−	97.6248	7.74	+0.04	+0.07	+2.21
Poland	07/04	7.125	BBB−	101.7865	6.78	+0.04	+0.16	+1.22
Russia	06/07	10.000	BB−	89.3166	11.96	+0.04	+1.29	+6.43
LATIN AMERICA								
Argentina	09/27	9.750	BB	91.5000	10.70	+0.22	+0.58	+4.93
Brazil	05/27	10.125	BB−	91.1919	11.15	+0.04	+0.72	+5.38
Mexico	05/26	11.500	BB	114.0000	9.99	+0.25	+0.58	+4.23
ASIA								
China	07/06	7.750	BBB+	104.4939	7.00	+0.04	+0.13	+1.47
Philippines	10/16	8.750	BB+	91.3523	9.77	+0.04	+0.65	+4.14
Thailand	04/07	7.750	BBB−	92.5425	9.00	+0.04	+0.62	+3.47
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB−	101.6250	8.25	+0.21	+0.50	+2.73
South Africa	10/06	8.375	BB+	103.4280	7.79	+0.04	−0.05	+2.28
Turkey	09/07	10.000	B	100.3732	9.92	+0.04	+0.50	+4.39
BRADY BONDS								
Argentina	03/23	5.500	BB	74.5000	8.46	+0.03	+0.22	+2.74
Brazil	04/14	5.000	BB−	76.0000	10.53	+0.33	+1.09	+4.92
Mexico	12/19	6.250	BB	82.7500	7.93	+0.07	+0.21	+2.26
Venezuela	03/20	6.750	B+	83.2571	8.44	+0.01	+0.27	+2.76

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.22	104.21	+0.17	104.22	104.22	81,835	104,964
Sep	103.53	103.72	+0.17	103.53	103.50	1,778	13,841

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Jul	Calls Sep	Puts Jun	Puts Jul	Puts Sep
102	2.04	1.60	1.84	-	0.05	0.30
103	1.04	0.78	1.14	-	0.23	0.60
104	0.04	0.24	0.61	-	0.69	1.06
105	-	0.04	0.27	0.96	1.49	1.71

Est. vol. total, Calls 5,038 Puts 4,144. Previous day's open int., Calls 63,618 Puts 68,283.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.01	108.23	+0.24	108.33	108.01	70565	95148
Sep	107.60	107.83	+0.25	107.93	107.60	15347	18626

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
10750	0.58	0.80	0.97	1.13	0.25	0.47	0.64	1.21
10800	0.30	0.53	0.69	0.90	0.47	0.70	0.88	1.48
10850	0.13	0.33	0.48	0.71	0.80	1.00	1.15	1.79

Est. vol. total, Calls 21761 Puts 5003. Previous day's open int., Calls 119036 Puts 99040

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105.29	105.37	+0.09	105.44	105.29	88,070	248,206
Sep	105.15	105.20	+0.12	105.27	105.15	15,110	33,897

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	105.40	-	-	-	0	211
Sep	-	105.24	-	-	-	0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	119.48	119.54	+0.06	119.74	119.48	31457	117561
Sep	120.07	120.08	+0.10	120.26	120.03	11263	29226

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jul	Calls Aug	Puts Jul	Puts Aug
12000	0.42	0.65	0.34	0.57
12050	0.21	0.42	0.63	0.84
12100	0.08	0.26	1.00	1.18

Est. vol. total, Calls 435 Puts 220. Previous day's open int., Calls 8190 Puts 11231

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	109.32	109.45	+0.17	109.53	109.32	43,895	104,325
Sep	-	109.26	+0.18	109.31	109.21	2,068	8,483

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	103.30	103.28	+0.10	103.30	103.24	55	5493
Sep	104.63	104.67	+0.09	104.70	104.63	98	1726

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109.72	109.91	+0.32	110.07	109.72	19509	55109
Sep	109.94	110.18	+0.32	110.34	109.94	59394	106833

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
11000	0.59	0.88	1.09	0.41	0.71	0.91
11050	0.36	0.65	0.85	0.68	0.97	1.17
11100	0.22	0.45	0.65	1.04	1.27	1.47

Est. vol. total, Calls 5937 Puts 1471. Previous day's open int., Calls 17767 Puts 6195

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	121–27	122–04	+0–21	122–11	121–26	194,631	384,272
Sep	121–19	121–30	+0–21	122–03	121–19	496,874	485,622
Dec	121–19	121–24	+0–17	121–27	121–19	6,014	59,362

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	134.04	134.17	-	134.21	134.03	3916	n/a
Sep	134.01	134.14	-	134.16	134.01	2526	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.04	104.00	+0.22	104.04	104.04	144	4,992

US CORPORATE BONDS

May 29	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	104.3385	6.03	−0.01	−0.23	+0.46
NY Tel	08/25	7.00	A+	100.4205	6.95	−0.03	−0.22	+1.16
CWE	05/08	8.00	BBB	111.2324	6.45	−0.02	−0.25	+0.90
FINANCIALS								
GECC	05/07	8.75	AAA	117.8460	6.13	−0.02	−0.24	+0.58
Banc One	08/02	7.25	A+	104.0063	6.14	−0.01	−0.24	+0.57
US West	01/07	7.30	BBB	107.3499	6.18	−0.02	−0.49	+0.63
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0606	6.16	−0.03	−0.11	+1.02
Wal Mart	05/02	6.75	AA	102.9765	5.89	−0.01	−0.35	+0.32
Dayton Hud	08/21	9.70	BBB+	134.0596	6.76	−0.03	−0.28	+0.96
AGENCIES								
FHLMC	04/07	7.14	N/A	108.7677	5.85	−0.03	−0.29	+0.30
SLMA	03/00	7.50	N/A	102.9584	5.71	−0.04	−0.18	+0.18
FNMA	02/18	8.95	N/A	132.5263	6.09	−0.03	−0.27	+0.29
FFCB	06/06	8.95	N/A	119.9039	5.80	−0.02	−0.27	+0.25
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB−	105.3750	0.00	-	-	-
Pacalta	06/04	10.75	B−	102.5000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.53
Broker loan rate	7¼	Two month	-	Three year	5.54
Fed.funds	5¼	Three month	5.02	Five year	5.56
Fed.funds at intervention	-	Six month	5.32	10-year	5.56
		One year	5.42	30-year	5.80

INTERNATIONAL BONDS

Jun 1	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	106.0000	4.88	−0.01	−0.05	+0.05
Spain	01/07	5.750	AA	105.6800	4.92	−0.02	−0.09	+0.09
Philip Morris	03/04	5.375	A	101.6202	5.04	−0.04	−0.18	+0.44
Finland FRN	09/02	3.570	AA	100.5861	3.88	−0.04	−0.19	−0.47
EURO FFR								
Austria	01/04	5.500	AAA	104.1500	4.64	-	−0.15	+0.05
Abbey Nat	02/04	6.000	AA	106.1400	4.74	-	−0.15	+0.15
Cred Foncier	02/04	9.125	A	120.5100	4.91	-	−0.17	+0.32
3CIF FRN	12/01	3.625	AA−	98.7923	4.13	-	−0.15	−0.14
EURO LIRA								
EIB	02/07	7.000	AAA	113.1000	5.09	−0.02	+0.01	+0.01
Abbey Nat	02/02	6.800	AA	106.6500	4.79	-	−0.01	+0.08
Walt Disney	06/00	8.625	A	107.4000	4.74	-	−0.06	+0.22
EIB FRN	03/01	5.356	AAA	100.0313	4.36	−0.01	−0.11	−0.24
EURO £								
EIB	12/07	7.625	AAA	111.8366	5.95	−0.04	−0.11	+0.25
Dresdner Bk	12/07	7.750	AA−	108.4564	6.52	−0.04	−0.03	+0.82
British Gas	03/00	7.625	A+	101.2164	6.87	−0.01	+0.06	+0.48
Abbey Nat FRN	02/02	7.650	AA	100.0640	5.98	−0.02	+0.01	−0.02
EURO $								
EIB	04/07	7.250	AAA	109.0200	5.91	−0.03	−0.14	+0.38
ABN Amro	08/07	7.125	AA−	105.2500	6.35	+0.01	−0.07	+0.82
Quebec	01/07	7.000	A+	104.4667	6.32	+0.04	-	+0.79
Citicorp FRN	02/04	5.754	A+	100.2900	5.65	+0.08	−0.04	+0.11
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.8377	5.61	−0.02	-	+0.16
Toronto	05/04	8.500	AA+	114.4452	5.59	−0.02	+0.02	+0.14
Bell Canada	07/99	10.625	A+	105.2881	5.57	−0.01	+0.06	+0.98
Deutsche B FRN	09/02	5.875	AAA	101.5616	5.46	−0.01	+0.02	+0.06
EURO YEN								
World Bank	03/02	5.250	AAA	116.7600	0.76	−0.03	−0.13	+0.19
Spain	03/02	5.750	AA	118.6250	0.76	−0.03	−0.14	+0.19
Cred Foncier	08/02	4.750	A	114.2982	1.22	−0.02	−0.16	+0.65
Italy FRN	07/99	0.711	AA	100.3090	0.09	+0.01	−0.05	−0.12

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Jun 1	Day's change %	Fri May 29	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	119.42	0.06	119.34	1.61	5.14
2 5-15 years (20)	163.62	0.26	163.67	1.29	5.47
3 Over 15 years (5)	204.84	0.48	203.86	0.75	6.32
4 Irredeemables (4)	261.35	0.87	259.10	1.20	7.20
5 All stocks (46)	155.64	0.25	155.45	1.34	5.65
Index-linked					
6 Up to 5 years (2)	217.49	0.18	217.10	0.58	3.13
7 Over 5 years (8)	232.83	0.01	231.43	1.55	2.85
8 All stocks (11)	229.79	0.04	228.56	1.38	2.86

UK Indices

	Low coupon yield Jun 1	Low coupon yield May 29	Low coupon yield Yr. ago	Medium coupon yield Jun 1	Medium coupon yield May 29	Medium coupon yield Yr. ago	High coupon yield Jun 1	High coupon yield May 29	High coupon yield Yr. ago
5 yrs	5.89	5.92	7.08	5.96	5.98	7.14	5.96	5.99	7.18
15 yrs	5.62	5.66	7.30	5.65	5.69	7.31	5.74	5.79	7.39
20 yrs	5.61	5.66	7.35	5.64	5.68	7.32	5.74	5.79	7.42
Irred.†	5.74	5.79	7.44						

	Inflation 5% Jun 1	Inflation 5% May 29	Inflation 5% Yr. ago	Inflation 10% Jun 1	Inflation 10% May 29	Inflation 10% Yr. ago
Up to 5 yrs	2.90	2.94	3.64	2.25	2.29	2.88
Over 5 yrs	2.63	2.68	3.69	2.44	2.49	3.46

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jun 1	May 29	May 28	May 27	May 26	Yr ago	High*	Low*
Govt. Secs. (UK)	105.89	105.09	105.00	105.01	105.04	96.10	105.89	83.21
Fixed Interest	144.09	143.36	142.96	142.72	142.38	120.12	144.09	115.32

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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Yen drops on fear of Asian recession

MARKETS REPORT

By Simon Kuper

Another day, another fall in the yen. The currency yesterday dropped to within sight of Y140 against the dollar, hit by last week's bad economic data from Japan and surprisingly gloomy growth figures for the first quarter yesterday from Hong Kong and Malaysia.

The recent nuclear tests in Pakistan and India did not help the yen, and nor did the demonstrations against the new Indonesian president, B.J. Habibie. Also, the Malaysian government seems to be angry with its central bank for keeping interest rates high as the economy starts to contract. Market rates throughout Asia have jumped again over the past week. It looks as though much of the region is moving into recession.

Most of the continent's currencies dropped yesterday, notably the Malaysian ringgit, Thai baht, Singapore dollar and the Australian dollar, which struck a new 12-year low as the gold price fell again. The Nikkei stock average and Japanese bonds both dropped too, the latter hitting another new record low. Jonathan Chapman, regional head of foreign exchange at Standard Chartered in London, said there was a "complete lack of investor funds" going into Asia at the moment. "The Indonesia situation is undermining everything," he said.

But he added that Thailand and Singapore, in particular, were pleased with the latest falls in their currencies. The "strong dollar" policy was being questioned in Singapore, as its currency was no longer very competitive with those of its neighbours. Data yesterday showed Singaporean exports down 6 per cent in the year to May. The Singapore dollar fell 2.3 cents against the US dollar to S$1.69.6, while the Thai baht fell Bt1.7 to Bt41.9 against the dollar.

The yen dropped Y1 against the dollar to close in London at Y139.6. It fell Y0.71 against the D-Mark to a new five-and-a-half year low at Y78.43.

As if the Asian news were not bad enough, the Russian crisis is hanging over all emerging markets. Yesterday talk of payment problems at a Russian futures exchange dragged Moscow stocks down 10 per cent. The rouble, pegged to the dollar, dropped only marginally. In earlier trading President Bill Clinton's vote of support for Russia had helped the D-Mark, but the subsequent bad news brought the German currency back down somewhat. The D-Mark ended 0.3 pfgs up against the dollar at DM1.780.

■ It is tempting to call Y140 a big barrier for the dollar against the yen, except that the dollar has recently been taking barriers as if they did not exist. The market still believes that Japan might intervene to support the yen – Tokyo officials threaten to do so almost daily – but few traders now believe that intervention is either imminent or likely to be very significant. The Tokyo analysts at S&P's MMS say Japan is not wedded to defending Y140, although it is worried at the speed of the yen's fall.

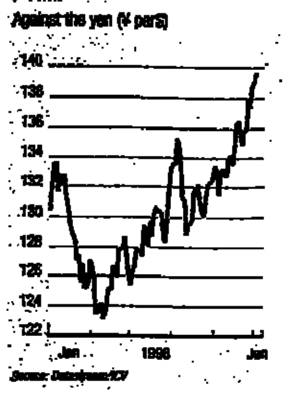
Norio Kuroiwa, treasurer at Bank Tokyo-Mitsubishi in London, says the Japanese authorities have decided that intervention would be of little use now, since the market is hell-bent on "selling Japan". Paul Chertkow, the bank's global head of foreign exchange research, notes that the market, including Tokyo-Mitsubishi, is only moderately long the dollar. That too would limit the effect of any intervention.

But neither of the two men believes that the yen will fall forever. Mr Kuroiwa says that after taking Y140, the market will stand back and reassess. The main resistance to the dollar at Y140 could come from investors defending knock-out options.

■ The pound rallied ahead of the meeting of the Bank of England's monetary policy committee that starts tomorrow. Robert Lynch, currency strategist at Paribas Capital Markets in New York, said the market had sold off the pound slightly too strongly in April and May, given that there was still a chance that the Bank might raise rates again. However, like the rest of the market, Mr Lynch expects no monetary tightening this week. He said that sterling's strength, by curbing inflation, in itself made a rate rise less likely.

Dollar

Against the yen (¥ per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Jun 1	– Latest –	– Prev. close –
£ spot	[illegible]	[illegible]
1 mth	[illegible]	[illegible]
3 mth	[illegible]	[illegible]
1 yr	[illegible]	[illegible]

■ OTHER CURRENCIES

Jun 1	£	$
Czech Rp	[illegible]	[illegible]
Hungary	[illegible]	[illegible]
Iran	4812.80 - 4910.10	3000.00 - 3000.00
Kuwait	0.5015 - 0.5019	0.3064 - 0.3065
Peru	4.6973 - 4.7048	2.8700 - 2.8730
Poland	5.7585 - 5.7709	3.5190 - 3.5240
Russia	10.1148 - 10.1286	6.1800 - 6.1850
U.A.E.	6.0111 - 6.0151	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jun 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	103.2
Belgium	(BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	102.7
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	105.2
Finland	(FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	81.1
France	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	105.1
Germany	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	104.3
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	60.7
Ireland	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	95.1
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	76.1
Luxembourg	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	102.7
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	102.1
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	96.1
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	92.0
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	77.0
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	85.9
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	106.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	104.0
Ecu	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
SDR†	-	[illegible]	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	81.4
Mexico	(New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	111.8
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	82.7
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	-	-	-
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	110.8
Malaysia	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	95.8
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Saudi Arabia	(SR)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Singapore	(S$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
South Africa	(R)	8.5386	+0.1307	338 - 434	8.5435	8.3971	8.6376	-13.9	8.7748	-11.1	9.2523	-8.4	-
South Korea	(Won)	2289.56	-5.65	847 - 264	2295.86	2278.27	-	-	-	-	-	-	-
Taiwan	(T$)	56.0790	+0.6759	210 - 369	56.1383	55.4202	56.4401	-7.7	56.7167	-4.5	57.3672	-2.3	-
Thailand	(Bt)	68.7604	+2.896	777 - 430	68.9560	65.9880	70.3785	-28.2	72.9458	-24.3	81.6848	-18.8	-

† Rates for May 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid High	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.5270	-0.0179	244 - 295	12.5630	12.4880	12.506	2.0	12.464	2.0	12.295	1.9	103.1
Belgium	(BFr)	36.7205	-0.024	180 - 230	36.8200	36.6300	36.659	2.0	36.535	2.0	36.0505	1.8	102.7
Denmark	(DKr)	6.7820	-0.0098	810 - 830	6.8026	6.7639	6.7736	1.5	6.756	1.5	6.6842	1.4	104.7
Finland	(FM)	5.4105	-0.0075	080 - 129	5.4277	5.3985	5.4017	2.0	5.3846	1.9	5.315	1.8	80.7
France	(FFr)	5.9694	-0.0134	688 - 698	5.9861	5.9506	5.959	2.1	5.9379	2.1	5.8572	1.9	105.8
Germany	(DM)	1.7803	-0.0025	800 - 806	1.7855	1.7751	1.7772	2.1	1.771	2.1	1.747	1.9	104.0
Greece	(Dr)	304.110	-0.39	020 - 200	305.090	303.040	305.805	-6.7	309.21	-6.7	320.46	-5.4	60.7
Ireland	(I£)	1.4168	+0.0015	158 - 178	1.4190	1.4135	1.4156	1.1	1.4138	0.8	1.4229	-0.4	-
Italy	(L)	1754.34	-2.46	419 - 448	1759.85	1749.70	1754.14	0.1	1752.14	0.5	1732.14	1.3	75.9
Luxembourg	(LFr)	36.7205	-0.024	180 - 230	36.8200	36.6300	36.659	2.0	36.535	2.0	36.0505	1.8	102.7
Netherlands	(Fl)	2.0067	-0.0024	063 - 070	2.0125	2.0089	2.0031	2.2	1.9961	2.1	1.9683	1.9	101.9
Norway	(NKr)	7.5228	-0.0095	205 - 251	7.5475	7.5002	7.5156	1.1	7.5052	0.9	7.4713	0.7	95.5
Portugal	(Es)	182.350	-0.1	300 - 400	182.800	181.930	182.163	1.2	181.722	1.4	179.41	1.6	92.6
Spain	(Pta)	151.200	-0.115	170 - 230	151.600	150.840	151.049	1.2	150.7	1.3	148.925	1.6	76.8
Sweden	(SKr)	7.8208	-0.0101	183 - 233	7.8494	7.7996	7.8136	1.1	7.7976	1.2	7.7264	1.2	85.7
Switzerland	(SFr)	1.4777	-0.0009	772 - 782	1.4847	1.4765	1.4728	3.9	1.4628	4.0	1.4215	3.8	106.2
UK	(£)	1.6372	+0.0065	367 - 376	1.6403	1.6283	1.6348	1.7	1.6301	1.7	1.6136	1.4	103.4
Ecu	-	1.1072	+0.0019	068 - 075	1.1093	1.1037	1.1085	-1.4	1.1112	-1.4	1.1246	-1.6	-
SDR†	-	0.748862	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0004	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1521	+0.0019	520 - 522	1.1525	1.1517	-	-	-	-	-	-	-
Canada	(C$)	1.4559	+0.0009	556 - 561	1.4575	1.4535	1.4549	0.8	1.4534	0.7	1.4476	0.6	81.7
Mexico	(New Peso)	8.9020	+0.086	970 - 070	8.9200	8.8900	9.0185	-15.7	9.264	-16.3	10.2995	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	112.4
Pacific/Middle East/Africa													
Australia	(A$)	1.6254	+0.0288	247 - 260	1.6273	1.6026	1.6245	0.6	1.622	0.8	1.6113	0.9	83.9
Hong Kong	(HK$)	7.7493	+0.0003	488 - 498	7.7501	7.7485	7.7698	-3.2	7.8173	-3.5	8.1093	-4.6	-
India	(Rs)	41.7250	+0.05	100 - 400	41.8300	41.6810	-	-	-	-	-	-	-
Israel	(Shk)	3.6460	-0.0084	429 - 490	3.6677	3.6428	-	-	-	-	-	-	-
Japan	(Y)	139.630	+1.065	590 - 670	139.700	138.470	139.035	5.1	137.795	5.3	132.415	5.2	113.1
Malaysia	(M$)	3.9400	+0.0985	350 - 450	3.9450	3.8550	4.0025	-19.0	4.125	-18.8	4.415	-12.1	-
New Zealand	(NZ$)	1.8952	+0.0273	939 - 965	1.8968	1.8699	1.8983	-2.0	1.9037	-1.8	1.9225	-1.4	-
Philippines	(Peso)	39.3750	+0.425	500 - 000	39.5000	39.2500	39.683	-9.4	40.35	-9.9	43.55	-10.6	-
Saudi Arabia	(SR)	3.7507	-0.0003	504 - 509	3.7509	3.7503	3.7521	-0.4	3.7543	-0.4	3.7658	-0.4	-
Singapore	(S$)	1.6960	+0.022	950 - 970	1.6980	1.6850	1.7022	-4.4	1.7145	-4.4	1.7485	-3.1	-
South Africa	(R)	5.2155	+0.0595	140 - 170	5.2175	5.1560	5.2835	-15.6	5.383	-12.8	5.7342	-9.9	-
South Korea	(Won)	1398.50	-9	700 - 000	1405.00	1398.00	-	-	-	-	-	-	-
Taiwan	(T$)	34.2540	+0.279	280 - 800	34.2850	34.0500	34.524	-9.5	34.794	-6.3	35.534	-3.8	-
Thailand	(Bt)	42.0000	+1.61	000 - 009	42.1000	40.1300	43.05	-30.0	44.75	-26.2	50.625	-20.5	-

† SDR rate per $ for May 29. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 29: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Jun 1	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.50	5.00	5.48
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.42	5.48	5.52	5.60	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

London Interbank Fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the Domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 1	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.400	96.410	+0.015	96.410	96.400	9,117	75,109
Sep	96.250	96.265	+0.035	96.290	96.250	5,481	46,164

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.405	96.425	+0.025	96.435	96.405	22161	345555
Sep	96.260	96.280	+0.025	96.290	96.260	42874	383193
Dec	96.050	96.075	+0.030	96.090	96.050	31754	440133
Mar	95.935	95.955	+0.030	95.970	95.935	31428	391387

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* LIFFE futures also traded on APT

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	96.030	96.045	+0.045	96.040	96.030	28	7252
Mar	95.955	95.945	+0.035	95.955	95.945	77	5091

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
94875	0.120			0.025		
95000	0.050	0.690	1.020	0.080	0.010	0
95125	0.020			0.175		

Est. vol. total, Calls 15343 Puts 3742. Previous day's open int., Calls 382939 Puts 300386

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.26	4.848	1.922	4778	5.465	20.49	496.6	411.8	21.30	4.024	1.663	3.965	2.723	380.3	2.460
Denmark	(DKr)	54.14	10	8.802	2.625	1.041	2587	2.959	11.09	268.9	222.9	11.53	2.179	0.901	2.147	1.475	205.9	1.332
France	(FFr)	61.51	11.36	10	2.982	1.182	2939	3.362	12.60	305.5	253.3	13.10	2.475	1.023	2.439	1.675	233.9	1.513
Germany	(DM)	20.63	3.809	3.353	1	0.396	985.4	1.127	4.226	102.4	84.93	4.393	0.830	0.343	0.818	0.562	78.43	0.507
Ireland	(I£)	52.03	9.609	8.457	2.522	1	2486	2.843	10.66	258.4	214.2	11.08	2.094	0.865	2.063	1.417	197.8	1.280
Italy	(L)	2.093	0.387	0.340	0.101	0.040	100	0.114	0.429	10.39	8.619	0.446	0.084	0.035	0.083	0.057	7.959	0.051
Netherlands	(Fl)	18.30	3.380	2.975	0.887	0.352	874.2	1	3.749	90.87	75.35	3.897	0.736	0.304	0.726	0.498	69.58	0.450
Norway	(NKr)	48.81	9.015	7.935	2.367	0.938	2332	2.668	10	242.4	201.0	10.40	1.964	0.812	1.935	1.329	185.6	1.201
Portugal	(Es)	20.14	3.719	3.274	0.976	0.387	962.1	1.100	4.125	100	82.92	4.289	0.810	0.335	0.798	0.548	76.57	0.495
Spain	(Pta)	24.29	4.485	3.948	1.177	0.467	1160	1.327	4.975	120.6	100	5.172	0.977	0.404	0.963	0.661	92.35	0.597
Sweden	(SKr)	46.95	8.672	7.633	2.276	0.902	2243	2.566	9.619	233.2	193.3	10	1.889	0.781	1.862	1.279	178.5	1.155
Switzerland	(SFr)	24.85	4.590	4.040	1.205	0.478	1187	1.358	5.091	123.4	102.3	5.293	1	0.413	0.985	0.677	94.49	0.611
UK	(£)	60.12	11.10	9.773	2.915	1.156	2872	3.285	12.32	298.5	247.5	12.80	2.418	1	2.384	1.637	228.6	1.479
Canada	(C$)	25.22	4.658	4.100	1.223	0.485	1205	1.378	5.167	125.2	103.9	5.372	1.015	0.420	1	0.687	95.91	0.620
USA	($)	36.72	6.782	5.969	1.780	0.706	1754	2.007	7.523	182.4	151.2	7.821	1.478	0.611	1.456	1	139.6	0.903
Japan	(Y)	26.30	4.857	4.275	1.275	0.506	1256	1.437	5.388	130.6	108.3	5.601	1.058	0.437	1.043	0.716	100	0.647
Ecu	-	40.66	7.509	6.609	1.971	0.781	1942	2.222	8.329	201.9	167.4	8.659	1.636	0.676	1.612	1.107	154.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5615	0.5606	+0.0001	0.5638	0.5604	24,271	116,612
Sep	0.5649	0.5640	+0.0006	0.5669	0.5634	1,600	8,745
Dec	-	0.5670	+0.0009	0.5671	-	46	357

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	0.6782	0.6743	20,830	68,088
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7235	0.7180	-0.0042	0.7236	0.7173	22,573	121,023
Sep	0.7315	0.7276	-0.0041	0.7315	0.7261	2,368	7,476
Dec	0.7378	0.7378	-0.0035	0.7378	0.7370	45	705

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6314	1.6366	+0.0064	1.6380	1.6274	5,900	50,462
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,977
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	185

UK INTEREST RATES

LONDON MONEY RATES

Jun 1	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	5.5	5.5	5.25	5.25

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

May 29	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	35
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4
NON ERM MEMBERS						
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.94
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.43
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.96

■ PHILADELPHIA SE DM/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.41

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	418,931
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	479,347
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	392,669

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,186
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,063
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	52

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.230
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.470

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.465

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	•Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	•Smith & Williamson	7.25
•Henry Ansbacher	7.25	•Robert Fleming & Co	7.25	Sun Bank	7.25
Banco Bilbao Vizcaya	7.25	•Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	•Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	•Hill Samuel	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	C. Hoare & Co	7.25		
Brit Bk of Mid East	7.25	Hongkong & Shanghai	7.25	• Members of London Investment Banking Association	
•Brown Shipley & Co Ltd	7.25	Investec Bank (UK) Ltd	7.25	* In administration	
Citibank NA	7.25	•Julian Hodge Bank	7.25		
Clydesdale Bank	7.25	•Leopold Joseph & Sons	7.25		
The Co-operative Bank	7.25	Lloyds Bank	7.25		
Coutts & Co	7.25	Midland Bank	7.25		
Cyprus Popular Bank	7.25	NatWest	7.25		
Duncan Lawrie	7.25	•Rea Brothers	7.25		
		Royal Bk of Scotland	7.25		
		Scottish Widows' Bank	7.25		

Zambian copper plans in disarray

By Kenneth Gooding, Mining Correspondent

Zambia's two-year struggle to revitalise its ailing copper industry, on which its economy heavily depends, is in disarray again following the government's rejection of a $1.1bn offer from the Kafue consortium and the consequent withdrawal of two of its members.

Noranda, the Canadian natural resources group, and Phelps Dodge, the US copper producer, quit the consortium, leaving it short of key technical expertise.

The remaining members, Avmin, the South African mining group, and Commonwealth Development Corporation, the UK development finance institution, said they would urgently seek new talks with the government and hoped to be able to look for new partners.

"This is a very challenging project – both financially and technically – and neither Avmin nor CDC would want to proceed without the benefits of another, strong partner," said CDC.

Kafue has been negotiating for 15 months to take over Nkana and Nchanga, the two biggest divisions of state-owned Zambia Consolidated Copper Mines. They account for two-thirds of ZCCM's output. In turn, ZCCM is responsible for 80 per cent of Zambia's foreign earnings and 25 per cent of its gross domestic product.

Noranda and Phelps Dodge said the main elements of Kafue's final offer, made on May 28, were an initial cash payment to ZCCM of $131m; the assumption of $35m of long-term debt; copper and cobalt price participation agreements totaling $150m; an initial working capital investment of $76m; and a five-year capital investment programme totalling $708m.

Mike Knuckey, a Noranda executive vice-president involved in the negotiations, said: "The lack of progress, combined with several new competing [Noranda] projects requiring significant commitment of both capital and people, have forced us to reallocate our priorities."

Timothy Snider, a Phelps Dodge vice-president, said: "Zambia is an important country for international mining investment but we could no longer keep key resources tied up in a drawn out negotiations with no end in sight."

The government said parallel negotiations had started with Ispat International, the international metals group owned by L.M. Mittal, the Indian entrepreneur, but analysts doubted Ispat could muster the necessary technical expertise.

Meanwhile, the government is under pressure from the International Monetary Fund to push ahead with privatisation. ZCCM's losses are estimated at $1m-$2m a day.

Exploration companies scour Alberta for diamond deposits

Junior mining groups have staked out claims to much of Alberta, forcing the establishment to take note, writes **Scott Morrison**

Alberta has long been known for its oil and natural gas deposits, but interest in the Canadian province has recently centred on its diamond potential. The first reports of diamonds found in Alberta came in 1958, but prospectors paid scant attention until a key 1991 discovery at Lac de Gras, about 500 miles away in the Northwest Territories. Now, some 30 companies are scouring Alberta in hopes of a similar find.

Pursuit of the province's diamond potential began in earnest about 18 months ago when geologists at Alberta Energy, an oil company, noted that aeromagnetic surveys revealed anomalies later confirmed to be kimberlite pipes – carrot-shaped formations in which diamonds can be found.

Alberta Energy joined the Canadian subsidiary of Australia's Ashton Mining group and another partner to pursue exploration activities. The partnership has mineral rights to 28m acres and recently announced that it had discovered 23 kimberlite pipes containing macro-diamonds at Buffalo Hills in the northern part of the province. However, further exploration and testing is required to see whether the region contains economic deposits.

A second joint venture was formed in April when Troymin Resources, a small mining company, secured a partnership with Monopros, the exploration arm of De Beers.

Troymin, which has produced promising aeromagnetic survey results, and the South African producer, which controls 70 per cent of the global market, have a working interest in 1.1m acres surrounding Ashton's Buffalo Hills site.

The agreement between Monopros and Troymin has added an element of credibility to the Alberta diamond play. They have identified several targets and expect to begin field work next month.

Monopros has been quietly exploring in North America for many years and is involved in grassroots exploration in several Canadian provinces and in Greenland. It and joint venture partner Mountain Province Mining recently announced promising preliminary test results from its "Tuzo" pipe in the Northwest Territories.

Much of the excitement surrounding Canada's diamond potential was generated by entrepreneurial geologists such as Chuck Fipke, who mortgaged his home to raise cash for exploration.

Mr Fipke's discovery at Lac de Gras led to a joint venture between his Dia Met Minerals and Australia's Broken Hill Proprietary, which are scheduled to complete a C$1bn (US$687m) mine this autumn and start producing US$350m to US$500m worth of diamonds annually.

A nearby project operated by Aber Resources and Rio Tinto, due to enter full production in 2000, would lift Canadian production to about 10 per cent of world supply. David James, analyst at Canaccord Capital, said more than 200 kimberlite pipes have been identified, with 12 appearing to be economic deposits.

In the wake of the Northwest Territories discoveries, dozens of junior Canadian exploration companies have raised risk capital for further prospecting.

Junior mining groups staked out claims to much of Alberta and their activities have forced the diamond establishment to take note.

"The juniors have forced the big companies to react. They have introduced a new variable into the diamond industry," says Alessandro Bitelli, vice-president, finance of Ashton's Canadian arm.

Analysts are encouraged by a number of factors in Alberta. The say its kimberlite pipes are generally larger in diameter than those found in the Northwest Territories, and sometimes pierce the surface.

Prospectors say they are located in more hospitable terrain and are more accessible. And industry sources are encouraged by the province's pro-business climate.

However, even the most optimistic proponents of Alberta's diamond prospects are cautious about forecasting success. While preliminary data are encouraging, more extensive testing is required to determine the potential of its geology.

The process will take several years, but Canada's juniors have not been able to resist the lure of diamonds.

Deposits are located in hospitable and accessible terrain

Gold dips on news of Russian exports

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

Gold fell nearly $5 a troy ounce to below $290 in London after Russia's Uneximbank said it had started shipping more than one tonne (32,154 ounces) of the metal for which it had obtained an export licence.

New regulations allow Russia's commercial banks to export gold for the first time. Another big Russian bank, Rossiisky Kredit, said in May it planned to export 20 tonnes this year.

At one point gold dropped to $288 an ounce. It ended in London at $289.25 an ounce, down $4.70 from Friday's close.

On the London Metal Exchange all prices fell, particularly that of nickel, which reached its lowest for 26 months, closing down $260 a tonne at $4,720.

Crude oil prices weakened as high oil stocks and over-supplied world markets continued to influence trading.

Brent Blend for July delivery was $14.11 a barrel in late trading on London's International Petroleum Exchange, down 26 cents on Friday's close.

Earlier, Brent had dipped further, as traders assessed news that Iraq might boost its oil exports under a new oil-for-food plan with the United Nations.

Speculative trading was blamed for a sharp fall in coffee prices in New York. By lunch time, the benchmark July future had fallen 8.75 cents a pound to a 14-month low of 123.75 cents.

Cocoa was also down, falling $28 a tonne in New York to $1,646 for July delivery. Traders said the market was likely to remain under pressure as July contracts were liquidated or rolled over ahead of June 17, the spot month's first notice day.

NEWS DIGEST

COFFEE

Venezuelan exports show recovery as prices rise

Venezuela's coffee exports are recovering from a dramatic slump as international prices edge up and domestic demand weakens, said Gustavo Mendoza Sánchez, the new managing director of Foncafé, the state coffee fund. In the past weeks, some 20,000 quintals of 60kg each were exported, the first of the 1997-98 season.

The oil-rich Caribbean nation virtually halted its coffee exports late last year, turning to the domestic market as coffee producers drove up prices in anticipation of a poor harvest and domestic demand surged on recovering purchasing power.

Mr Mendoza said the total export capacity for this season ending September 30 was 250,000 60kg quintals, compared with 240,000 quintals exported in the 1996-97 season. He expects total production of 2m 47kg quintals for the harvest beginning October 1 (1998-99), up from 1.3m for the harvest ending September 30 (1997-98). The strong forecast comes after Central American coffee organisations cut their output expectations by 12.5 per cent last month.

Once the country's principal economic activity, coffee has been replaced by oil as the leading export product. As a result, Venezuelan coffee producers turned to the domestic market, taking advantage of a relatively high per capita income.

With the help of new government loans, which await congressional approval, Foncafé hopes to recover some of the estimated 320,000 hectares of abandoned coffee plantations. Mr Mendoza said special emphasis would be given to technical assistance to boost productivity, as some plantations produce only 6 to 7 quintals a hectare, compared with more than 50 quintals a hectare on some of the larger plantations. Foncafé estimates some 240,000 hectares currently produce coffee. **Raymond Colitt, Caracas**

PERU

El Niño, Asia hits earnings

Peru expects earnings from copper, gold and zinc exports to drop by about $300m this year and other commodities to be hit by the combined effects of the El Niño weather phenomenon and the Asian financial crisis.

José Valderrama León, a finance ministry adviser, said these factors had had a "very strong impact on growth rates for exports" this year and that lower commodity prices were likely to remain a factor for some time. "We are assuming that it will stay [like that]. We are not expecting too much of a recovery," he said yesterday at a Latin American markets conference in London.

In addition, fishmeal export receipts could be cut by up to $350m as a result of El Niño. However, metal exports were being increased to try to alleviate the effects of lower prices.

Ricardo Hausmann, chief economist at the Inter-American Development Bank, said countries in the region were especially vulnerable to commodity price volatility given their fiscal dependence on commodity exports. Yet many still had no "coherent strategy" to minimise the risk of price fluctuations. "Many of these countries are not doing enough to hedge themselves against these sorts of risks," he said.
Jeremy Grant

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1329.5-30.5	1357-58
Previous	1343.5-44.5	1370-71
High/low		1373/1354
AM Official	1335.5-36.5	1365.5-66
Kerb close		1356-57
Open int.	278,239	
Total daily turnover	32,805	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1250-55	1245-50
Previous	1265-70	1255-60
High/low		1260/1245
AM Official	1255-60	1253-55
Kerb close		1245-50
Open int.	8,299	
Total daily turnover	781	

■ LEAD ($ per tonne)

Close	545.5-6.5	558-59
Previous	550-1	562-3
High/low		563/557
AM Official	546-7	560-0.5
Kerb close		558-59
Open int.	35,246	
Total daily turnover	5,731	

■ NICKEL ($ per tonne)

Close	4650-55	4730-35
Previous	4885-90	4960-65
High/low		4980/4700
AM Official	4855-60	4935-40
Kerb close		4710-20
Open int.	50,902	
Total daily turnover	7,625	

■ TIN ($ per tonne)

Close	5880-90	5810-20
Previous	5875-85	5820-30
High/low		5830/5800
AM Official	5855-60	5805-10
Kerb close		5790-800
Open int.	17,449	
Total daily turnover	2,612	

■ ZINC, special high grade ($ per tonne)

Close	1031.5-32.5	1057-58
Previous	1050.5-51.5	1075-76
High/low		1077/1046
AM Official	1040.5-41	1066-67
Kerb close		1049-50
Open int.	82,495	
Total daily turnover	14,026	

■ COPPER, grade A ($ per tonne)

Close	1663.5-64.5	1680-81
Previous	1685.5-86.5	1700-01
High/low		1718/1674
AM Official	1695-95.5	1710-11
Kerb close		1688-89
Open int.	175,595	
Total daily turnover	41,924	

■ LME AM Official £/$ rate: 1.6330
LME Closing £/$ rate: 1.6399

Spot: 1.6395 3 mths: 1.6326 6 mths: 1.6254 9 mths: 1.6203

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	75.50	-1.55	76.30	74.70	390	2,962
Jul	75.95	-1.55	77.50	75.00	5,431	28,615
Aug	76.30	-1.50	77.10	76.40	163	2,182
Sep	76.55	-1.45	77.50	75.70	1,035	7,948
Oct	76.85	-1.35	-	-	58	1,663
Nov	76.95	-1.35	-	-	1	1,581
Total					7,480	67,138

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	288.50-289.00		
Opening	292.30-292.50		
Morning fix	292.35	179.026	431.947
Afternoon fix	288.75	176.282	426.628
Day's High	292.60-292.90		
Day's Low	288.20-288.50		
Previous close	293.70-294.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.46	6 months	4.14
2 months	4.40	12 months	3.80
3 months	4.35		

Silver Fix	p/troy oz.	US cts equiv.
Spot	314.81	514.25
3 months	-	-
6 months	-	-
1 year	-	-

Gold Coins	$ price	£ equiv
Krugerrand	288-300	181-183
Maple Leaf	-	-
New Sovereign	70-73	43-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	287.9	-4.4	292.8	287.5	5,978	5,135
Aug	290.6	-4.5	295.5	290.4	27,100	73,188
Oct	292.8	-4.6	295.9	292.8	276	6,117
Dec	294.8	-4.6	299.4	294.5	882	21,347
Feb	296.5	-4.6	300.0	296.6	82	9,554
Apr	298.3	-4.6	300.0	299.2	68	7,858
Total					34,498	160,445

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	363.3	-4.9	370.5	360.5	1,705	9,342
Oct	363.3	-4.9	369.5	362.5	254	1,761
Jan	362.3	-4.9	367.0	367.0	80	102
Apr	359.8	-4.9	360.0	360.0	1	12
Total					2,730	10,582

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	275.00	-19.55	290.00	273.00	331	559
Sep	262.00	-12.55	274.00	255.00	964	3,379
Dec	256.00	-11.55	260.00	249.00	103	460
Total					1,168	4,041

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Jul	505.5	-3.0	515.5	498.0	20,123	56,841
Sep	509.0	-3.0	521.0	502.5	2,403	9,393
Dec	512.5	-3.0	521.0	505.5	390	14,001
Jan	513.3	-3.0	-	-	-	16
Mar	514.0	-3.0	519.0	510.0	25	3,134
May	515.0	-2.0	520.0	520.0	10	789
Total					22,987	91,571

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	15.07	-0.13	15.23	14.74	56,749	106k
Aug	15.65	-0.03	15.69	15.34	23,315	58,704
Sep	16.05	-0.03	16.07	15.78	8,234	39,240
Oct	16.35	-0.06	16.37	16.16	2,042	23,516
Nov	16.62	-0.07	16.64	16.55	941	13,370
Dec	16.90	+0.01	16.90	16.60	2,977	40,780
Total					92,381	431,879

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	14.11	-0.26	14.29	14.03	15,777	75,474
Aug	14.40	-0.23	14.55	14.33	5,125	47,680
Sep	14.70	-0.14	14.80	14.64	1,168	21,632
Oct	15.00	-0.11	15.06	14.87	306	12,439
Nov	15.30	-0.06	15.30	15.25	365	9,891
Dec	15.46	-0.10	15.52	15.41	355	37,477
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	40.00	-0.37	40.20	39.40	24,661	56,620
Aug	41.35	-0.32	41.47	40.85	3,189	22,227
Sep	42.85	-0.27	42.85	42.30	1,516	13,535
Oct	44.15	-0.37	44.15	43.90	728	13,103
Nov	45.80	-0.02	45.80	45.30	732	11,060
Dec	47.00	-0.12	47.05	46.65	1,398	16,997
Total					51,244	285,342

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	121.75	+1.00	122.75	121.50	4,765	26,074
Jul	124.50	+0.75	125.50	124.25	2,778	21,987
Aug	128.50	+1.25	129.25	128.25	973	12,955
Sep	131.75	+1.25	132.50	131.75	133	11,914
Oct	135.50	+1.00	-	-	218	15,297
Nov	138.25	+1.00	139.25	138.25	189	9,868
Total					8,000	152,986

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Jul	8.770	-0.010	-	-	-	1,110
Aug	8.800	+0.100	8.800	8.800	30	970
Total					1,140	18,685

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.190	+0.020	2.235	2.135	31,151	45,441
Aug	2.225	+0.020	2.265	2.180	8,235	25,665
Sep	2.250	+0.015	2.285	2.205	4,601	19,648
Oct	2.305	+0.018	2.320	2.260	3,989	18,301
Nov	2.465	+0.016	2.485	2.430	2,640	14,158
Dec	2.635	+0.021	2.660	2.600	1,857	19,829
Total					45,038	254,289

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	50.80	-0.32	50.95	50.00	19,392	44,809
Aug	51.55	-0.12	51.70	50.80	3,980	21,334
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	76.00	-	76.00	75.95	55	1,238
Sep	76.00	-0.45	-	-	-	168
Nov	78.25	-0.20	78.25	77.75	95	3,379
Jan	80.25	-0.20	80.35	80.00	15	753
Mar	82.25	-0.20	-	-	-	424
Total					165	6,224

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	284.00	-0.25	284.00	281.25	11,134	60,972
Sep	294.50	-	294.75	292.00	3,580	16,778
Dec	309.75	-	310.00	307.00	3,822	25,812
Mar	323.00	-0.50	323.25	320.50	892	5,565
May	327.00	-1.00	327.00	327.00	14	657
Jul	335.50	-1.00	336.75	335.50	28	506
Total					21,288	110,378

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	238.75	+0.25	239.00	236.00	29,279	134,986
Sep	242.25	-0.50	242.50	240.00	7,364	43,675
Dec	248.25	-1.25	248.50	243.75	18,698	124,671
Mar	254.50	-1.00	254.50	252.00	812	13,179
May	259.00	-1.75	258.50	257.00	200	2,321
Jul	264.25	-1.25	264.25	261.50	76	6,238
Total					63,770	328,183

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Sep	72.50	-0.25	-	-	-	24
Nov	74.50	-0.25	-	74.75	-	814
Jan	76.50	-0.25	-	-	-	182
Mar	78.50	-0.25	-	-	-	42
May	80.00	-0.25	-	-	-	11
Total					-	1,073

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	619.25	+0.75	620.00	611.00	33,239	59,701
Aug	609.50	-0.75	610.00	603.00	4,798	18,608
Sep	592.75	-3.75	593.00	587.00	1,020	5,387
Nov	586.00	-3.75	587.00	580.50	14,305	48,835
Jan	592.75	-3.75	593.00	588.00	380	4,042
Mar	599.75	-4.50	600.00	597.00	271	1,272
Total					58,246	138,074

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	25.60	-0.40	25.99	25.56	17,225	59,624
Aug	25.80	-0.36	26.12	25.73	5,249	23,949
Sep	25.82	-0.35	26.15	25.85	2,093	17,030
Oct	25.84	-0.25	26.15	25.78	694	8,800
Dec	25.65	-0.18	25.80	25.52	6,039	29,311
Jan	25.68	-0.14	25.73	25.55	332	3,211
Total					38,014	146,498

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	159.2	+0.9	159.3	158.1	22,892	53,731
Aug	157.1	-	157.0	154.7	7,769	21,981
Sep	156.0	-1.0	156.5	154.0	2,078	14,939
Oct	153.6	-1.0	154.8	152.8	1,335	11,121
Dec	156.2	-1.4	157.5	154.6	8,615	27,997
Jan	157.6	-1.4	158.0	156.2	25	3,517
Total					48,177	133,585

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Jun	110.0	-	-	-	-	-
Nov	77.0	-	-	-	-	3
Mar	119.0	-	-	-	-	-
Apr	143.0	-8.0	151.0	114.0	180	1,810
May	153.0	-8.0	-	-	-	29
Total					180	1,810

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Jun	870	-	-	-	-	88
Jul	850	-5	850	850	1	491
Oct	955	-	-	-	47	351
Jan	1010	-	-	-	-	133
Apr	1065	-	-	-	-	-
Total					1	1,873

	Close	Prev
BFI	941	n/a

PULP AND PAPER

■ PULPEX DNLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	506.50	-0.50	508.00	504.00	22	373
Sep	520.00	-6.00	521.50	520.00	30	574
Total					67	1,168

FUTURES DATA
All futures data supplied by CMS.

Wool from Mallett & Co
New Zealand's market indicator this week rose by 9 cents compared with the last sale two weeks ago. Australia was down over three days' auctions to 600 cents from 606 cents a week ago. Clearances in New Zealand were about 90 per cent under good competition. Australian wool growers, dissatisfied with prices, continued to withdraw wool before and during auctions in Sydney, Adelaide and Freemantle. Only wool withdrawn at auction is fully revealed and was put at 25-28 per cent. But trade sources estimate that as much as a third of wool originally scheduled is being held back before reaching auction.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1094	-25	1115	1086	1,994	26,030
Sep	1117	-24	1137	1109	1,733	22,348
Dec	1139	-23	1157	1132	665	33,094
Mar	1157	-23	1174	1146	307	37,187
May	1169	-23	1186	1186	10	13,397
Jul	1181	-23	1205	1193	93	6,301
Total					4,859	147,936

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1640	-34	1668	1638	3,557	23,977
Sep	1666	-35	1691	1665	2,019	15,689
Dec	1697	-32	1720	1695	394	16,890
Mar	1723	-30	1742	1720	610	10,578
May	1740	-30	-	-	32	3,926
Jul	1757	-30	-	-	19	1,573
Total					5,971	81,377

■ COCOA (ICCO) (SDR's/tonne)

May 29	Price	Prev. day
Daily	1327.83	1317.10

■ COFFEE LIFFE (5 tonnes; $/tonne)

May	1795	-86	1877	1850	208	874
Jul	1761	-34	1777	1753	4,048	21,648
Sep	1735	-21	1742	1723	1,900	11,083
Nov	1705	-20	1709	1697	485	3,356
Jan	1675	-20	1680	1680	10	426
Mar	1645	-15	1655	1640	24	385
Total					6,470	38,953

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	124.15	-8.35	131.00	123.00	5,455	15,010
Sep	123.45	-6.15	128.75	122.00	2,775	7,775
Dec	120.20	-4.90	124.50	119.00	621	7,092
Mar	116.25	-4.35	120.00	116.00	283	2,787
May	114.25	-4.10	116.50	115.00	62	1,135
Jul	112.25	-3.85	116.50	114.00	21	718
Total					9,226	35,008

■ COFFEE (ICO) (US cents/pound)

May 29		Prev. day
Comp. daily	112.67	113.12
15 day average	114.52	114.54

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Aug	249.3	-2.7	252.5	248.5	1,935	17,504
Oct	244.0	-2.0	246.9	243.0	953	12,808
Dec	245.9	-2.3	248.5	245.0	412	2,085
Mar	251.0	-2.0	253.5	250.0	76	2,854
May	254.3	-1.7	255.9	255.0	66	665
Aug	258.3	-0.9	259.0	259.0	-	333
Total					3,114	36,288

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	8.08	-0.20	8.33	8.07	11,917	77,142
Oct	8.27	-0.15	8.50	8.25	6,981	62,213
Mar	8.88	-0.16	9.06	8.85	2,342	28,834
May	8.93	-0.16	9.06	8.93	149	4,214
Jul	8.99	-0.13	9.11	8.99	65	3,718
Oct	8.98	-0.13	9.13	8.97	25	4,427
Total					21,836	182,675

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	73.59	+3.00	73.59	71.00	14,190	24,452
Oct	74.75	+2.40	74.90	72.90	1,593	4,195
Dec	74.58	+1.32	74.65	73.50	7,948	35,373
Mar	75.24	+0.98	75.30	74.50	1,082	7,718
May	75.50	+1.27	75.50	74.85	168	3,686
Total					25,354	81,774

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	108.35	-0.55	109.15	107.60	969	20,864
Sep	111.60	-0.50	112.50	110.80	162	6,833
Nov	114.05	-0.65	114.75	113.10	19	4,657
Jan	116.00	-0.70	116.25	115.75	2	2,172
Mar	118.50	-0.70	-	-	-	1,027
May	121.00	-0.70	-	-	-	680
Total					1,150	36,383

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 1	May 29	month ago	year ago
1610.6	1608.7	-	2009.4

■ CRB Futures (Base: 1967 = 100)

May 29	May 28	month ago	year ago
215.90	214.46	-	-

■ GSCI Spot (Base: 1970 = 100)

May 29	May 28	month ago	year ago
158.27	158.45	164.06	198.85

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-200	to	549,025
Aluminium alloy	+240	to	53,140
Copper	-2,225	to	281,350
Lead	[illegible]	to	[illegible]
Nickel	[illegible]	to	[illegible]
Zinc	[illegible]	to	[illegible]
Tin	[illegible]	to	[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	64.950	+0.400	65.175	64.275	6,460	26,938
Aug	66.325	+0.025	66.825	65.750	6,102	36,408
Oct	65.975	-0.325	68.275	65.725	3,031	18,444
Dec	66.900	-0.250	67.350	66.750	1,021	5,996
Feb	68.225	-0.100	68.450	68.075	147	2,215
Apr	69.400	+0.200	69.600	69.250	44	842
Total					16,899	90,890

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Jun	61.800	+0.550	61.850	61.075	3,296	8,355
Jul	60.800	+1.000	60.950	59.525	2,385	9,938
Aug	57.925	+0.800	57.950	56.850	1,712	6,678
Oct	52.825	+0.625	52.900	52.200	315	3,674
Dec	52.475	+0.400	52.800	52.100	67	3,419
Feb	54.900	+0.250	55.000	54.850	36	788
Total					7,816	33,542

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	51.600	+1.075	51.850	49.500	1,653	4,553
Aug	49.475	+1.200	50.100	47.750	514	1,995
Feb	52.700	+1.100	53.250	52.700	1	5
Total					1,286	6,466

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1350	22	63	32	43
1400	7	40	67	70
1450	2	24	111	102
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1600	95	135	20	53
1700	39	83	63	99
1800	12	47	136	161
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1650	123	140	12	55
1700	82	119	21	84
1750	49	107	38	122
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1025	71	101	2	9
1050	49	82	5	15
1075	31	65	12	23
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1400	-	-	-	-
1450	20	67	25	-
1500	10	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.49-2.57x	+0.070
Brent Blend (dated)	$13.54-3.64	-0.225
Brent Blend (Jul)	$14.19-4.24	+0.100
W.T.I.	$14.89-4.91x	+0.055

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$161-163	
Gas Oil	$120-122	
Heavy Fuel Oil	$61-63	
Naphtha	$124-127	+6.5
Jet fuel	$132-133	+1
Diesel	$129-130	+2

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	8.77-8.78

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

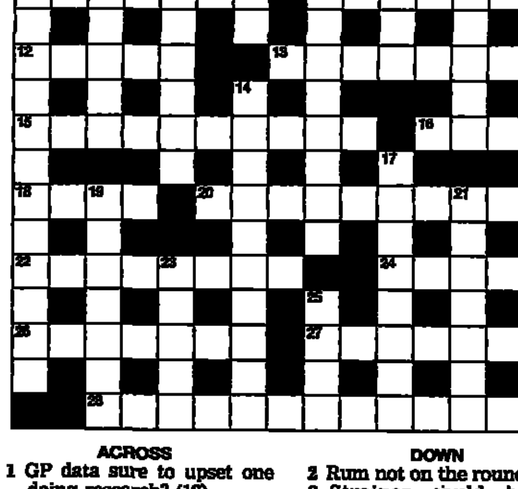
Gold (per troy oz)‡	$288.75	-5.20
Silver (per troy oz)‡	507.50c	-2.00
Platinum (per troy oz.)	$362.50	+1.50
Palladium (per troy oz.)	$282.00	-3.00
Copper	81.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	22.54r	
Tin (New York)	282.5	
Cattle (live weight)	82.44p	+1.12*
Sheep (live weight)	131.62p	+5.07*
Pigs (live weight)†	63.98p	-3.05*
Lon. day sugar (raw)	$211.50	+0.90
Lon. day sugar (wte)	$262.50	+1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)¥	50.25p	
Rubber (Aug)¥	50.25p	
Rubber (KL RSS No1)	293.00m	-2.00
Coconut Oil (Phil)§	650.0y	
Palm Oil (Malay.)§	635.0y	+7.5
Copra (Phil)§	$430.0y	
Soyabeans (US)	167.0	
Cotton Outlook'A' index	66.55	
Wooltops (64s Super)	345p	

[illegible]

JOTTER PAD

CROSSWORD

No.9,697 Set by QUARK



ACROSS
1 GP data sure to upset one doing research? (12)
10 *Big* fire in *plant* linked with oxygen (7)
11 Starchy stuff thrown at A1 cop (7)
12 Poet's to open the artist's theatrical performance (5)
13 Part of play's cutting cost procedure (8)
15 Monarchs? Certain to include number at the gallery (10)
16 Ring leading to twitch of the ear (4)
18 One in a hundred? The opposite! (not to be repeated) (4)
20 Practical anointing taking part in river (10)
22 Star ship arranged for string players to appear (8)
24 Treat boil? A quick look's no good (5)
26 Moderate a painting technique (7)
27 A word about the games (7)
28 *Don't* touch the spring: avoid needless change (3,4,5)

DOWN
2 Rum not on the round (7)
3 Strainer could be for *grounds with certain characteristics* (8)
4 Run out of house cover (4)
5 This is off-putting (10)
6 Relish a second short film (5)
7 A big-head gets to one in a way (7)
8 Small gains, we hear, for a dozen in the bible (5,8)
9 Being the supreme example of the French? (3,10)
14 Daub plaster about (without pressure) for this kind of railing (10)
17 Man picked up unusual alloy? Not true (8)
19 Some problem a race set up. Sticky stuff (7)
21 It could go down well in a game (7)
23 Time to support coal worker not starting (inactive) (5)
25 Ring up the joint commercial venture (4)

Solution to Saturday's prize puzzle on Saturday June 13.
Solution to yesterday's prize puzzle on Monday June 15.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 404646211

Bank Von Ernst & Cie AG

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd (u)

Exchange Ho, Primrose St, Ldn, EC2A 2NY 0171-628 1234

Foreign & Colonial Portfolios Fd Sicav(u)

47 Boulevard Royal, L-2449 Lux 00 352 4640101

Frontrunner I (u)

Morgan Stanley Sicav

C/O First European Transfer Agent S.A.

11 Boulevard Grand-Duchesse Charlotte

L-1331 Luxembourg

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equitable Life (International)

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	611xd	-½	646	407½	1,[illegible]	4.0	14.9
Bulmer (HP)	†	359½	—	552½	295	6	5.2	11.1
Burn Stewart	‡	21	—	70½	19½	13	10.1	-
Diageo	[illegible]	[illegible]	+14½	784	432	3,592	2.5	30.9
Glenmorangie A	q	782½	+12½	[illegible]	755	-	2.3	Φ
B	q	[illegible]	-5	1090	890	-	1.0	Φ
Highland	†	305½xd	—	347	258	60	3.7	14.1
5¼pc Cv Sb Bd		[illegible]		[illegible]	85½	-	5.9	-
Kirin Y	$	555½	-15	664¼	416¾	-	0.9	-
Matthew Clark	‡	[illegible]	—	277½	150	110	12.6	6.4
Merrydown	‡	50	-1	108½	37½	-	7.8	-
Seagram C$		[illegible]	-⅝	[illegible]	£18[illegible]	-	1.0	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

صكذا من الاجل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£17¼	+⅛	*£19½	£10½	-	3.7	8.9
Barlow R	♦	[illegible]	—	[illegible]	[illegible]	-	3.0	12.8
Gold Fds Prop R		123	+4	197	[illegible]	-	6.2	13.5
SA Breweries R		£16½xd	-½	£23¼	£13½	-	2.3	♦
Standard Bank R		[illegible]	[illegible]	[illegible]	[illegible]	-	1.5	-
Tiger Oats		775	-25	1160	775	-	2.3	15.3
Tongaat-Hulett R		632½	+37½	780	583	-	2.8	14.1

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		[illegible]	+1808	[illegible]	£472	8,012	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) trade incorporated non-listed companies.
- ● Price at time of suspension
- . Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a FID (Foreign Income Dividend)
X Forecast annualised yield, p/e based on prospectus or other official estimates.
Y Pro forma figures.
Z Dividend yield to date.

Abbreviations:
, ex dividend;
, ex scrip issue;
, ex rights;
, ex all;
, ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1465 a year for each security shown, subject to the Editor's discretion.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

FTSE 100 rallies strongly after steep decline

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London shares had to endure a painful session yesterday, with sentiment, already weakened over recent days, given a thorough shaking after further substantial weakness in overseas markets.

The *proximity* of some crucial economic news from both sides of the Atlantic added to the nervous mood. The Bank of England's monetary policy committee meets on Wednesday with its decision on interest rates due at midday on Thursday.

And the US non-farm payroll report for May, one of the most closely watched economic news items of the month, is scheduled for Friday.

But London stocks did stage a robust rally not long before the close of trading. The FTSE 100 finished the day a net 32.8 off at 5,837.9, having lost the 5,800 level earlier in the session and posted a near three-figure slide in the process.

Similarly, there was relief for the market's second-liners where the FTSE 250, down 20.2 to 5,881.2 at worst, around midday, subsequently made rapid progress to close only 2.5 easier at 5,898.9, although some dealers attributed that index's late rally to late "uncommercial trades".

Against the recent trend, the market's smaller companies took something of a pasting, the FTSE SmallCap index stubbornly refusing to mirror the late-rallying performances of the FTSE 100 and 250 constituents, and closing 11.3 lower at 2,761.8, only a fraction above the session low of 2,716.6.

The late rush of buying in London markets was attributed by dealers to Wall Street's good showing yesterday, where the Dow Jones Industrial Average posted a 50-plus gain not long after UK markets finished.

Wall Street's performance came after weaker-than-expected economic data, notably the NAPM for May. That came in at 51.4 per cent compared with April's 52.9 per cent, an indication of a slowing in the US economy.

That was a clear pointer, so traders said, that the Federal Reserve might not need to increase US interest rates after the June 30 meeting of its open market committee.

Marketmakers were not convinced of the London market's ability to withstand more bouts of selling pressure. "Investors in the leaders are increasingly uncomfortable with the market. The US, despite today's rally, is looking increasingly vulnerable, and it feels as if the UK funds are now happier to sell into rallies," said one senior dealer.

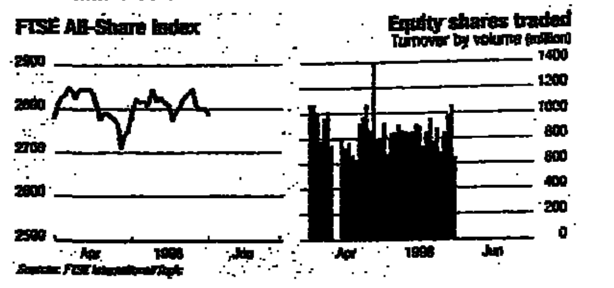
The dealer was more optimistic about the midcaps and smallcaps, which he said looked increasingly likely to outperform FTSE 100 stocks, because of the continuing spate of takeovers, notably in the smaller companies.

He warned, however, that a prolonged burst of takeovers in the smaller companies tended to coincide with the top of the market cycle.

He also noted that turnover in London was pitifully thin, partly because of the lack of order flow from many of the European financial centres, notably Frankfurt and Paris, which were closed for the Whitsun holiday.

At the 6pm cut-off point, turnover reached 651.4m shares, with non-FTSE 100 stocks accounting for 62 per cent of the total.

FTSE All-Share Index / Equity shares traded (Turnover by volume (million))



Indices and ratios

FTSE 100	5837.9	-32.8	FT 30	3820.0	-1.7
FTSE 250	5898.9	-2.5	FTSE Non-Fins p/e	23.26	23.30
FTSE 350	2851.4	-13.1	FTSE 100 Fut Jun	5842.0	-57.0
FTSE All-Share	2785.45	-12.73	10 yr Gilt yield	5.65	5.70
FTSE All-Share yield	2.82	2.80	Long gilt/equity yld ratio	2.10	2.11

Best performing sectors		Worst performing sectors	
1 Building Matls & Merchs	+2.7	1 Retail Banks	-1.6
2 Alcoholic Beverages	+1.6	2 Oil Integrated	-1.4
3 Electricity	+0.9	3 Paper, Pckg & Print	-1.4
4 Electronic & Elec	+0.8	4 Extractive Inds	-1.4
5 Utilities	+0.5	5 Resources	-1.3

Merger boosts Zeneca

COMPANIES REPORT

By Peter John and Martin Brice

The UK market's biggest story came from overseas. Monsanto and American Home Products of the US *agreed to merge in a* deal that would create a $96bn company.

The new group will be the world's second biggest in agro-chemicals and will push Zeneca further down the ladder.

However, Zeneca – which is forecast to generate 35 per cent of sales from agro-chemicals – jumped 56 to £25.45 as the market returned to its old obsession of consolidation.

Paul Diggle at SG Securities said that the US deal "underpinned the valuation of Zeneca's agro-chemicals" because AHP had been "prepared to pay a pharmaceuticals rating for Monsanto's agro-chemicals".

James Culverwell of Merrill Lynch said that while the US move did not have big implications for the UK, it was "a reminder that there is an underlying trend for consolidation."

Of the other two sector leaders in the UK, Glaxo Wellcome fell 10 to £16.38 and SmithKline Beecham 8½ to 655p. SmithKline held talks with AHP in January.

Barclays was a comparatively strong performer as investors switched holdings out of National Westminster following a broker review of fundamental valuations.

Credit Lyonnais Securities published a hefty note which pointed out that, at the start of trading, the shares were 18 per cent below their peak and had underperformed the broad market by almost 13 per cent over the past quarter.

With the broker forecasting a soft economic landing *and, consequently, a benign* outlook for inflation and rates, it believes Barclays will maintain "double-digit percentage growth rate in operating profits".

So, it has turned unequivocal buyer of the stock and set an £18.73 price target. If the Footsie hits its end-of-year target of 6,300, it believes Barclays should be £20.

Credit Lyonnais argues that with Barclays trading at a 7 per cent p/e discount to NatWest for no apparent reason, investors should rebalance sector weightings. Barclays gained 34 to £16.88 in a falling sector while NatWest *shed 29 to £10.90.*

Leading oil stocks fell back as Goldman Sachs took the knife to its crude oil price forecasts and subsequently adjusted its estimates for the majors.

Goldman cut its current-year estimate for Brent by $1 to $15. It then cut its earnings per share outlook for BP by 5 per cent to 40.2p and its earnings per share estimate for Shell Transport by 5 per cent to 18.2p. BP fell 11 to 888p and Shell 8 to 444½p.

Monument Oil and Gas and Premier Oil rose 3½ to 68½p and a halfpenny to 47½p after the exploration companies said they had discovered gas in Pakistan in a joint venture including BHP Petroleum.

Investors greeted the announcement by Smiths Industries that it was to supply flight management computers for Boeing 737 airliners operated by Southwest Air of the US by pushing the shares up 23 to 993p.

Sector specialists said the move could force many other US airlines to follow Smiths' lead and upgrade their Boeing 737s. One estimate yesterday was that the upgrade would need to be supplied to 1,800 aircraft.

One bonus could be that installing the new system in existing aircraft would produce a higher margin than supplying direct to the manufacturer.

British Energy appeared to be up 33 at 598p at the close. But the company said a rogue trade of only 1,600 shares carried out five seconds before the close was responsible and the real volume-weighted average price was only 564p.

Late small trades at well above market prices saw RMC surge 21 per cent or 245 to £14. The sudden rise made the company the best performer in the FTSE 250. Although in the mid cap, RMC is traded under the electronic order book system as it has been in the Footsie since last October. Volume was only 700,000 shares.

After the market closed it was announced that RMC would re-enter the Footsie today. General Accident, which is merging with Commercial Union, will leave.

EMI loses flavour

EMI was one of the worst performers in the Footsie, with sentiment affected by the announcement that the Spice Girls were to lose Ginger Spice.

However, the pop group's commercial fortunes were already said to be faltering – the band was not due to produce an album this year – so the split may have a minimal impact on EMI's figures. The stock was off 10 at 508p.

Halifax lost recent gains after newspaper reports revived speculation that the group may bid for Birmingham Midshires Building Society.

The shares – boosted last week by their inclusion in the Morgan Stanley Capital International global stocks index – traded 29p lower at 895p.

Reports said Royal Bank of Scotland would release Birmingham Midshires from an exclusivity agreement, leaving it open to an offer from Halifax, which has already tabled a £780m offer.

Hong Kong-related stocks were shaken by the local and regional economic tremors. The Hang Seng Index finished 322.55 points lower at 8,612 on Monday. HSBC fell 38 to £15.42 and Standard Chartered 4 to 757p.

Guardian Royal Exchange gained 6 to 352p. The insurer has sold its Canadian operations to ING and bought the Dutch group's US regional business.

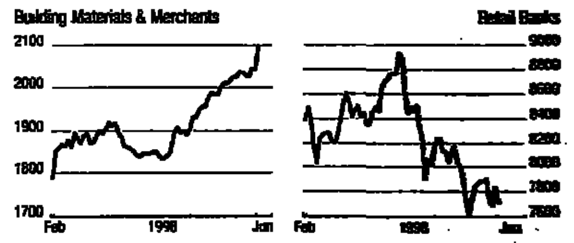
Analysts said the deal made strategic sense but was expensive and would not be earnings enhancing this year.

J. Sainsbury rose 10½ to 435p on hopes for the disposal of Shaw's, its US unit. A weekend press report said several US companies were interested with speculation centred on the Yucaipa Companies investment group.

Kohlberg Kravis Roberts, Safeway and Kroger were also seen as interested parties.

Public transport stocks were in the limelight ahead of the government white paper, expected this month. FirstGroup outperformed the FTSE 250 index as it fell 2 at 429½p after the company announced a 42 per cent profit rise to £72.5m and said it was to pay £30m for the 80 per cent of Sheffield and South Yorkshire bus operator Mainline it did not already own.

Best and worst performing FTSE sectors



FT 30 INDEX

	Jun 1	May 29	May 28	May 27	May 26	Yr ago	*High	*Low
FT 30	3820.0	3821.7	3834.9	3854.3	3900.1	2971.5	3820.3	3779.2
Ord. div. yield	2.90	2.89	2.88	2.87	2.84	3.68	4.22	2.79
P/E ratio net	23.76	23.81	23.89	23.99	24.27	18.03	25.41	15.80
P/E ratio nil	23.55	23.60	23.68	23.78	24.06	17.84	25.19	15.71

FT 30 since compilation: high 3820.3 11/05/98; low 49.4 26/06/40. Base Date 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3821.8	3730.9	3785.1	3784.1	3794.2	3800.2	3805.3	3795.3	3796.4	3821.8	3779.2

STOCK MARKET TRADING DATA

	Jun 1	May 29	May 28	May 27	May 26	Yr ago
SEAQ bargains	62,101	65,267	67,446	76,010	67,625	42,587
Equity turnover (£m)†	-	-	2825.4	2827.1	3085.0	2370.0
Equity bargains†	-	-	49,407	58,449	58,362	39,418
Shares traded (m)†	-	-	739.0	746.0	784.4	703.4
Total market bargains‡	-	69,839	62,881	77,179	70,253	-
Total turnover (£m)‡	-	4788.3	4166.5	4077.4	4053.5	-
Total shrs traded (m)‡	*651.4	1154.2	990.2	997.0	976.7	-
Tradepoint turnover (£m)	8.6	31.8	33.5	33.2	26.3	1.8
Tradepoint shrs traded	4,319	12,613	11,730	11,040	7,7087	670

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	509	Total Highs	174	Total contracts	26,660
Total Falls	1,164	Total Lows	89	Calls	15,015
Same	1,320			Puts	11,645

Jun 1 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

[illegible]

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*5800) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices

Produced in conjunction with the Faculty and Institute of Actuaries — The UK Series

	Jun 1	Day's chge%	May 29	May 28	Year ago	Gross yield%	Net yield%
FTSE 100	5837.9	-0.6	5870.7	5862.3	4562.8	2.82	2.38

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

FTSE ACTUARIES WORLD INDICES

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 29 / Sch)

BELGIUM/LUXEMBOURG (May 29 / Frs.)

CZECH REP (Jun 1 / Korune)

DENMARK (May 29 / Kr)

FINLAND (Jun 1 / Mka)

FRANCE (May 29 / Frs.)

GERMANY (May 29 / Dm.)

GREECE (Jun 1 / Drachma)

ITALY (Jun 1 / Lire)

NETHERLANDS (May 29 / Fls.)

NORWAY (May 29 / Kroner)

POLAND (Jun 1 / Zloty)

PORTUGAL (Jun 1 / Escudo)

SPAIN (May 29 / Pta.)

SWEDEN (May 29 / Kronor)

SWITZERLAND (May 29 / Frs.)

TURKEY (Jun 1 / Tk Lira)

PACIFIC

JAPAN (Jun 1 / Yen)

HONG KONG (Jun 1 / H.K.$)

INDONESIA (Jun 1 / Rupiah)

MALAYSIA (Jun 1 / MYR)

NEW ZEALAND (May 29 / NZ $)

SINGAPORE (Jun 1 / S$)

AUSTRALIA (Jun 1 / Aust$)

SOUTH KOREA (Jun 1 / Won)

TAIWAN (Jun 1 / TW $)

THAILAND (Jun 1 / Baht)

AMERICAS

CANADA

TORONTO (Jun 1 / Can $)

4 pm close

MONTREAL (Jun 1 / Can $)

4 pm close

MEXICO (Jun 1 / Peso)

12:30 pm

AFRICA

SOUTH AFRICA (Jun 1 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 29 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MAY 28 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	198.55	0.8	180.51	173.91	184.03	210.85	0.0	3.76	197.02	179.29	172.52	182.12	210.80	243.87	190.26	232.39
Austria (23)	245.36	-0.4	223.06	214.91	227.41	227.29	-0.2	1.45	246.42	224.25	215.78	227.78	227.85	253.73	181.60	199.08
Belgium (28)	354.26	0.3	322.06	310.29	328.34	321.01	0.5	2.26	353.21	321.42	309.29	326.49	319.33	357.37	234.33	260.90
Brazil (28)	219.44	-1.1	199.50	192.20	203.39	464.59	-1.1	2.19	221.91	201.94	194.31	205.12	469.61	322.44	184.94	267.48
Canada (120)	241.26	0.1	219.33	211.32	223.61	254.19	0.1	1.58	240.97	219.29	211.01	222.75	254.01	248.78	199.10	205.01
Denmark (34)	504.14	-0.5	458.33	441.57	467.27	465.70	-0.2	1.30	506.54	460.96	443.55	468.23	466.63	521.61	375.32	383.14
Finland (28)	426.25	0.3	387.51	373.35	395.07	484.67	0.6	1.89	425.08	386.81	372.20	392.91	481.97	451.12	267.45	273.84
France (78)	322.72	0.4	293.39	282.66	299.11	302.86	0.8	1.96	321.29	292.37	281.33	296.98	300.40	328.64	213.42	214.39
Germany (58)	296.99	1.3	270.00	260.13	275.26	275.26	1.6	1.20	293.22	266.84	256.76	271.04	271.04	303.12	204.69	214.75
Greece (37)	296.57	1.8	269.62	259.76	274.88	647.35	1.7	1.43	291.23	265.02	255.01	269.20	636.44	307.94	264.68	–
Hong Kong, China (86)	267.62	0.5	243.30	234.41	248.05	266.25	0.5	5.95	266.26	242.30	233.15	246.12	264.84	580.03	262.93	508.13
Indonesia (27)	34.79	5.0	31.63	30.48	32.25	241.19	4.1	2.93	33.14	30.16	29.02	30.63	231.75	254.90	27.26	238.65
Ireland (18)	515.61	0.8	468.75	451.61	477.89	513.36	1.0	1.91	511.31	465.29	447.72	472.63	508.14	560.44	338.69	346.36
Italy (54)	165.97	-0.7	150.88	145.37	153.83	217.75	-0.4	1.29	167.08	152.05	146.30	154.45	218.63	177.15	86.93	89.11
Japan (480)	91.79	-0.3	83.46	80.40	85.08	80.40	-0.3	0.98	92.10	83.81	80.64	85.13	80.64	141.12	88.52	132.74
Malaysia (107)	151.11	-1.3	137.37	132.36	140.05	223.50	-2.0	2.89	153.15	139.37	134.10	141.56	227.97	541.84	113.56	536.27
Mexico (29)	1462.82	1.7	1329.87	1281.26	1355.82	14100.03	2.2	1.73	1438.35	1308.90	1259.46	1329.54	13799.67	1901.98	1416.05	1416.05
Netherlands (19)	521.41	0.7	474.02	456.69	483.27	478.12	0.9	1.98	517.92	471.31	453.51	478.74	473.62	532.74	369.56	377.87
New Zealand (14)	67.83	-0.1	61.67	59.41	62.87	67.28	-0.5	4.85	67.87	61.76	59.43	62.73	67.61	98.47	67.83	89.70
Norway (36)	313.79	0.4	285.27	274.84	290.84	320.81	0.5	1.95	312.43	284.31	273.57	288.79	319.23	374.84	261.82	315.23
Philippines (22)	87.98	0.1	79.98	77.06	81.54	170.77	-0.2	1.22	87.91	80.00	76.97	81.26	171.07	173.10	57.54	169.62
Portugal (18)	281.26	-1.2	255.69	246.35	260.68	351.23	-1.0	1.09	284.71	259.09	249.30	263.17	354.73	299.39	276.07	–
Singapore (42)	170.29	-0.9	154.81	149.15	157.83	131.36	-0.9	2.31	171.85	156.38	150.48	158.85	132.61	401.75	144.01	391.46
South Africa (42)	289.34	3.1	263.05	253.43	268.18	326.07	2.8	10.85	280.71	255.44	245.79	259.47	317.17	364.24	227.86	354.89
Spain (31)	381.00	-0.7	346.38	333.71	353.13	436.75	-0.5	1.75	383.66	349.13	335.95	354.64	439.00	398.54	236.28	262.21
Sweden (46)	592.81	0.0	538.94	519.24	549.45	887.23	0.4	1.70	593.02	539.65	519.27	548.16	884.65	615.21	439.98	451.05
Switzerland (30)	409.24	0.3	372.05	358.45	379.31	375.14	0.7	1.08	408.12	371.39	357.36	377.25	372.67	414.95	265.85	294.32
Thailand (38)	18.34	-6.8	16.67	16.06	17.00	28.75	-8.2	9.52	19.68	17.91	17.24	18.19	30.69	69.09	13.10	61.60
United Kingdom (207)	377.99	0.2	343.64	331.08	350.34	343.64	0.1	2.87	377.36	343.40	330.43	348.82	343.40	401.84	293.10	302.15
USA (634)	445.15	-0.5	404.69	389.90	412.59	445.15	-0.5	1.44	447.56	407.28	391.90	413.71	447.56	462.18	340.47	341.71
Americas (809)	402.71	-0.5	366.11	352.73	373.25	340.50	-0.5	1.48	404.73	368.31	354.40	374.12	342.21	418.55	311.99	312.78
Europe (747)	359.07	0.3	326.44	314.50	332.80	340.13	0.5	1.98	357.98	325.77	313.46	330.90	338.52	367.09	258.75	261.75
Eurobloc (352)	103.75	0.4	105.99	108.05	103.95	103.98	0.7	1.64	103.31	105.65	107.56	103.23	103.25	108.34	100.00	–
Nordic (148)	515.41	0.0	468.57	451.44	477.71	522.71	0.9	1.69	515.47	469.08	451.36	476.47	520.99	536.56	386.48	391.13
Pacific Basin (968)	99.39	-0.2	90.30	87.00	92.07	87.18	-0.2	1.72	99.53	90.57	87.15	92.00	87.41	158.98	95.32	151.03
Euro-Pacific (1615)	207.60	0.2	188.73	181.88	192.41	182.54	0.3	1.91	207.28	188.61	181.48	191.58	182.05	216.04	172.03	197.22
North America (754)	432.21	-0.5	392.93	378.56	400.59	432.37	-0.5	1.45	434.42	395.33	380.39	401.56	434.60	448.61	332.48	333.36
Europe Ex. UK (540)	337.31	0.4	306.65	295.44	312.64	327.85	0.7	1.55	336.07	305.83	294.27	310.65	325.98	345.25	230.16	234.33
Europe Ex. Eurobloc (395)	98.15	0.2	100.28	102.22	98.34	99.56	0.2	2.39	97.98	100.20	102.01	97.90	99.33	100.97	96.35	–
Europe Ex. UK Ex. Eurobloc (188)	102.22	0.2	104.44	106.46	102.42	102.23	0.6	1.30	102.02	104.33	106.22	101.95	101.86	104.20	99.32	–
Pacific Ex. Japan (488)	171.30	0.3	155.73	150.04	158.77	175.84	-0.1	4.45	170.77	155.40	149.53	157.86	175.86	318.96	161.31	308.73
World Ex. Eurobloc (2114)	96.86	-0.3	87.88	84.67	89.59	97.58	-0.3	1.74	96.95	88.23	84.90	89.62	97.87	100.18	96.88	–
World Ex. US (1832)	210.84	0.2	191.67	184.67	195.41	189.43	0.3	2.00	210.42	191.49	184.25	194.51	188.88	220.18	175.30	200.56
World Ex. UK (2259)	277.54	-0.2	252.41	243.18	257.34	255.11	-0.2	1.58	278.26	253.22	243.65	257.21	255.61	287.02	234.24	239.98
World Ex. Japan (1986)	382.71	-0.2	347.93	335.21	354.72	376.87	-0.1	1.80	383.94	348.84	335.87	354.34	377.30	394.30	301.66	303.21
The World Index (2466)	286.15	-0.2	260.15	250.64	265.22	263.11	-0.1	1.72	286.57	260.87	251.02	264.99	263.46	298.57	241.30	245.30

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Emerging markets: IFC investable indices

4 pm close June 1

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div.	Yld. %	P/ E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
		- A -								
[illegible]	[illegible]	AAR x	0.24	1.3	22	288	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	AMP x	1.08	2.9	18	9867	[illegible]	[illegible]	[illegible]	[illegible]
163	121	AMR			11	6456	[illegible]	[illegible]	[illegible]	-4
[illegible]	[illegible]	ASA x	0.80	3.8	13	317	22	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		- X - Y - Z -								
115	[illegible]	Xerox	1.44	1.4	22	15586	[illegible]	97	[illegible]	[illegible]
[illegible]	[illegible]	Xtra Corp x	0.88	1.7	16	166	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Yankee Egy	1.38	5.7	17	84	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	York Int	0.48	1.0	44	1281	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zapata	0.28	2.8	25	802	[illegible]	10	[illegible]	[illegible]
[illegible]	[illegible]	Zenith Nat	1.00	3.5	18	70	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Fd x	0.73	9.8		180	[illegible]	[illegible]	[illegible]	
[illegible]	25	Zero x	0.12	0.4	17	210	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ZweigFdA	1.32	10.6		717	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Tot	0.84	8.7		2780	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 29	May 28	May 27	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8899.95	8970.20	8936.57	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.87	104.86	104.81	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3346.61	3336.96	3332.50	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	284.86	280.78	277.42	281.18 (2/4)	262.66 (9/1)	281.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's high 9080.13 (9040.70) Low 8858.80 (8861.59) (Theoretical) Day's high 9027.00 (9083.12) Low 8889.95 (8900.79) (Actual)

Standard and Poors	May 29	May 28	May 27	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1090.82	1097.60	1092.23	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials	1272.56	1282.28	1276.70	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial	131.52	132.05	131.21	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	566.28	567.10	563.93	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	714.60	713.58	708.84	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1778.88	1794.82†	1781.10	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	456.82	455.81	450.26	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	May 22	May 15	May 8	Year ago
Dow Jones Ind. Div. Yield	1.56	1.56	1.56	1.69
	May 27	May 20	May 13	Year ago
S & P Ind. Div. yield	1.33	1.30	1.30	1.67
S & P Ind. P/E ratio	30.60	30.98	31.08	23.66

US DATA

MARKET ACTIVITY

Volume (million)	May 29	May 28	May 27
NYSE	558.780	588.900	703.560
Amex	24.749	25.537	33.399
NASDAQ	669.638	651.144	800.016

NYSE	May 29	May 28	May 27
Issues Traded	3,511	3,500	3,516
Rises	1,725	1,527	370
Falls	1,208	1,049	2,184
Unchanged	578	528	462
New Highs	82	28	18
New Lows	50	69	198

NYSE TRADING ACTIVITY

Volume : 558,780,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
BayNtwks	8,733,400	27¾	-⅜
Lilly	5,550,200	61¼	-1⅝
PhMorr	5,519,900	37⅝	+⅛
Humana	5,514,000	31¼	+1⅛
Compaq	4,595,100	27⅛	-⅛
UnPac	4,532,500	48⅝	-1⅛
UHlthc	4,370,700	64	+1½
Chryslr	4,327,800	55⅝	-1⅛
AT&T	4,002,200	60⅝	+⅛
CmwlA	3,550,900	67⅝	-1⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Handleman	12⅜	+⅞	+8.3
Viad	27	+1⅞	+7.2
Quanex	31¼	+2⅛	+7.1
SvMstr	33⅛	+2⅛	+7.1
Downs			
Fedders	15⅞	-1⅞	-10.8
Airgas	15⅛	-1⅛	-6.5
Genesco	12⅝	-⅞	-6.4
Allen Com	12	-⅞	-5.9

NASDAQ TRADING ACTIVITY

Volume :669,638,000

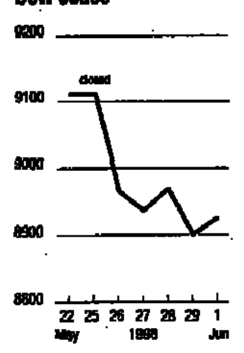
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
ICOS Cp	22,935,000	21¼	+4⅞
Intel	18,481,600	71⅛	-2⅛
DellCmp	11,422,000	82⅝	-2⅝
Centocor	9,805,400	39	-1⅛
Oracle	9,652,400	23⅝	-1
WrldCm	9,436,900	45½	-⅛
Micsft	7,893,600	84⅞	-1½
Xilinx	6,530,400	38	-3½
3Com	6,156,200	25⅝	-1⅞
CiscoSys	5,702,700	75⅝	-1⅛

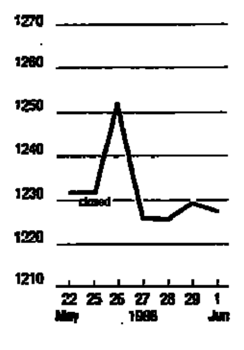
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
ICOS Cp	21⅛	+4⅞	+30.0
Energis	72⅛	+11⅛	+18.4
IndMatson	16⅛	+1⅞	+11.7
MicroMed	16⅞	+1½	+9.9
Downs			
REMEC	14⅝	-6½	-31.1
IntgrCirSy	13⅝	-2⅜	-14.7
P-Com	15	-2⅛	-12.4
PRI Auto	20⅝	-2⅜	-10.4

Dow Jones



FTSE Eurotop 300



JAPAN

	Jun 1	May 29	May 28	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15321.03	15670.78	15796.55	17264.34	14664.44	38915.9	85.25

Day's high: 15702.05. Day's low: 15321.03.

TOKYO TRADING ACTIVITY

Volume : 331,800,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Nikko Secs	16,210,000	482	+46
Daiwa Secs	8,978,000	560	+23
Sakura Bank	7,218,000	410	-1
Mitsui T & B	6,108,000	324	-1
Mitsbl Hvy	6,067,000	476	-6
Sumo Mitl Ind	5,641,000	215	
Bk Tk-Mitsbl	5,597,000	1362	-43
Hitachi	5,470,000	875	-36
Np Steel Cp	5,249,000	230	-5
Ishiwa Sek	5,131,000	290	-48

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Odakyu Cns	445	+50	+12.7
Nikko Secs	482	+46	+10.6
Sho-Kobe El	265	+25	+10.4
Furukawa Bat	238	+22	+10.2
Downs			
Ishihara Sels	230	-48	-17.3
Toa Steel	95	-14	-12.8
Np Pipe Mfg	200	-25	-11.1
Shikibo	108	-11	-9.2

FRANCE

	Jun 1	May 29	May 28	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	closed	4041.16	4014.92	4115.88	2862.54	4115.88	984.61

Day's high: – . Day's low: – .

PARIS TRADING ACTIVITY

Volume : 738,131,860

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Rho-Pinc A	2,242,433	332	+8.8
France Tel	1,589,079	335.1	+2.6
Bq Natl Paris	1,403,508	511	+12
Euro Disney	1,211,642	10.5	-0.15
Lagardere	1,174,865	263	+11
Michelin B	1,084,908	370.2	-4.4
Axa-UAP	947,124	681	-3
Total	938,887	743	-7
Usinor	826,203	100.1	-2.3
CSF (Thmsn)	823,506	242	+6

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Sligh Kellan	84	+10	+13.5
Grosll-Rock	1470	+135	+10.1
IDI	561	+51	+10
Downs			
Havas	471.2	-109.8	-18.9
AMF (All Crs)	750	-148	-16.5
Bourgeois	52	-9	-14.8
Locale	113	-17	-13.1
Biopat	491	-70	-12.5

GERMANY

	Jun 1	May 29	May 28	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	closed	5569.08	5481.26	5844.29	4087.26	5844.29	931.18

Day's high: – Day's low: –

FRANKFURT TRADING ACTIVITY

Volume : 16,872,838

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Hoechst	948,028	89	+7.35
Daimler-Benz	857,124	179.8	-0.2
Bayer	832,357	85.3	+4.05
BASF	690,439	82.7	+4
Commerzbk	643,495	72.3	+2.3
Deutsche Tel	492,381	47.85	-0.85
Siemens	445,949	115.2	-1
Lufthansa	418,572	44.6	+1.15
Veba	412,497	117.2	-0.3
Dresdner Bk	299,410	100.3	+1.5

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Douglas	97	+10	+11.5
Elleiboben	79.5	+7.5	+10.4
Hoechst	89	+7.35	+9
Metro	113.7	+7.8	+7.4
Axidron	724	+49	+7.3
Downs			
Babcock-BSH	127	-9	-6.6
Bosch	61	-3.9	-6
Massa	151	-9	-5.6

UK

	Jun 1	May 29	May 28	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5837.9	5870.7	5802.3	6105.80	5058.90	6105.8	986.9

Day's high: 5870.7 Day's low: 5777.7

LONDON TRADING ACTIVITY

Volume : 651,400,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Tarmarls	14,637,580	2	
Thomson Trvl	13,759,450	177	-2½
SmthBchm	10,365,490	655	-8½
Govett Orntl	9,919,246	85⅝	-4
Signet Grp	8,867,385	47⅝	
Halifax	8,780,617	898	-29
BP	8,329,290	888	-11
Smith (D.S)	7,638,194	242½	-9½
BT	7,060,858	630	-9
Rentokil Intl	6,318,356	418½	-8½

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
RMC Grp	1400	+245	+21.2
SEET	32½	+5½	+20.4
Dealre Pet	290	+45	+18.4
Zergo Hldgs	305	+45	+17.3
Minmet	10¼	+1½	+17.1
Downs			
Beaufort	1¼	-¼	-16.7
Powerscreen	87½	-15	-14.6
Hoing Life	35	-5	-12.5

INDEX FUTURES

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	1098	1094.60	+3.80	1094.90	1084.60	117,819	329,869
Sep	1099	1100.5	+3.80	1106.60	1098.00	14,088	58,274
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	15680	15330.0	-370.0	15700.0	15280.0	32,591	193,851
Sep	15680	15290.0	-410.0	15690.0	15290.0	2,224	23,583

* Open interest figures for previous day

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
May	4050.0	4020.0		4060.0	4036.5	n/a	14,724
Jun	4028.5	4000.0		4042.0	4035.0	n/a	43,725
DAX							
Jun	5562.0	5561.0	+33.5	5595.0	5537.0	21,124	126,931
Sep	5606.0	5608.0	+31.5	5632.5	5599.5	618	18,883
OMX							
Jun	768.00	768.50	+4.50	774.25	766.00	24,183	128,929
Jul	775.00	772.00	+4.75	776.50	772.00	178	146
SOFFEX							
Jun	7618.0	7605.0	+25.0	7680.0	7601.0	3,462	21,409
Jul	7640.0	7608.0	+67.9	7660.0	7640.0	123	2,841

WORLD MARKETS AT A GLANCE

Country	Index	Jun 1	May 29	May 28	1998 High	1998 Low	Yield	P/E
Argentina	General	20351.57	20542.76	20885.01	23485.47 23/3	18237.48 2/1	3.13	18
Fears over other emerging markets depressed share prices.								
Australia	All Ordinaries	2689.1	2715.7	2714.6	2881.40 16/4	2542.40 12/1	3.38	19.8
	All Mining	604.0	614.8	614.3	713.10 23/4	552.20 13/1		
Gold stocks came under pressure as bullion declined.								
Austria	Credit Aktien	(c)	573.52	575.12	584.34 26/5	437.44 13/1	1.43	16.6
	ATX Index	(c)	1592.22	1588.62	1626.56 26/5	1246.89 13/1		
Belgium	BEL20	(c)	3250.72	3231.37	3250.72 29/5	2357.78 10/1	1.77	21
Brazil	Bovespa	9533.0	9847.0	10152.0	12299.08 15/4	9118.00 9/1	na	na
Disappointing pre-election polls indicating a fall in support for President Cardoso weighed on shares.								
Canada	TSE 100	463.02	464.83	463.91	475.83 25/5	380.83 12/1	1.52	22.9
	Metals/Minerals	3630.31	3676.95	3699.48	4390.01 10/3	3442.35 12/1		
	Composite	7562.40	7589.78	7579.60	7822.30 22/4	6239.86 12/1		
	Portfolio	3863.69	3873.54	3875.06	3965.81 25/5	3234.41 13/1		
Shares slid, led by a 2.4 per cent decline in the gold and precious metals index.								
Chile	IGPA Gen	4297.16	4318.00	4318.75	4861.95 17/3	4243.47 27/1	2.96	14
China	Shanghai B	45.38	46.01	46.92	59.58 10/2	40.88 12/1	0.82	35.2
	Shenzhen B	92.38	92.59	92.49†	98.97 10/2	77.98 13/1		
Shenzhen's hard currency B share index closed lower hit by Hong Kong's declines.								
Colombia	IBB	(u)	1183.92	1186.06	1431.46 7/1	1130.31 19/3	na	na
Czech Republic	PX50	448.7	454.0	455.9	517.30 23/3	448.70 1/6	na	na
Denmark	CopenhagenSE	(c)	749.31	741.56	778.84 7/4	667.88 12/1	1.34	23.2
Egypt	Cairo SE Gen	369.37	(c)	374.16	393.19 21/4	345.40 2/2	na	na
Uncertainty over upcoming privatisations depressed shares.								
Finland	HEX General	4735.51	4827.72	4789.24	5026.04 11/5	3220.43 12/1	2.12	16.1
Nokia declined due to weakness in the US technology sector.								
France	SBF 250	(c)	2625.01	2607.12	2658.97 26/5	1873.10 12/1	2.27	19.2
	CAC 40	(c)	4041.16	4014.92	4115.88 26/5	2862.54 12/1		
Germany	FAZ Aktien	(c)	1760.88	1741.11	1798.98 26/5	1334.15 12/1	1.34	23.8
	Commerzbank	(c)	5204.90	5152.50	5321.90 26/5	3928.28 12/1		
	DAX	(c)	5569.08	5481.26	5844.29 26/5	4087.28 12/1		
Greece	Athens SE	2536.09	2591.03	2549.07	2669.73 25/5	1380.13 29/1	1.64	26.3
	FTSE/ASE 20	1512.94	1554.66	1529.38	1601.83 5/5	765.18 29/1		
Banks led the decline, losing 3.1 per cent, while industrials lost 1.4 per cent.								
Hong Kong	Hang Seng	8612.01	8334.56	8877.94	11810.63 25/3	8121.06 12/1	4.6	8.9
	HSCC Red Chip	1096.81	1140.51	1139.71	1775.09 27/2	964.50 12/1		
Investor confidence was shaken by rising interest rates and the weaker yen.								

Country	Index	Jun 1	May 29	May 28
Hungary	Bux	(c)	7057.13	7049.25
India	BSE Sens.	3642.35	3686.39	3721.93
	Crisil 500	723.97	723.86	730.22
Disappointment over budget led to sell-off.				
Indonesia	Jakarta Comp.	414.08	430.47	414.22
Suharto-linked companies sold off as demands to seize assets held ...				
Ireland	ISEQ Overall	(c)	5078.39	5038.99
Israel	Tel Aviv 100	324.65	(c)	326.82
Bank Hapoalim was the volume leader, closing down 1.3 per cent.				
Italy	BCI Comit 30	342.91	348.58	349.91
	Banca Com Ital	1471.56	1516.44	1507.13
	Mibtel General	23553.0	23935.0	23989.0
Declined led lower by blue chips.				
Japan	Nikkei 225	15321.03	15670.78	15796.55
	Nikkei 300	235.53	240.69	241.48
	Topix	1196.70	1221.49	1223.79
	2nd Section	1304.51	1301.23	1299.45
Gloom over domestic economy and worries over Asian markets led ...				
Jordan	Amman SE	178.49	(c)	
Malaysia	KLSE Comp.	516.00	538.24	544.74
Weak first-quarter GDP figures depressed prospects for economic growth.				
Mexico	IPC	4444.34	4530.01	4468.22
Morocco	CASA	819.90	825.26	822.63
Asian jitters dragged shares lower amid small volume.				
Netherlands	CBS TRtnGen	(c)	1393.2	1380.3
	CBS All Shr	(c)	788.8	781.5
New Zealand	Cap. 40	(c)	2147.64	2191.20
Nigeria	SE All-Share	6045.34	6033.90	6046.90
Norway	Oslo SE Ind	(c)	2147.64	2147.12
Pakistan	Karachi SE	911.44	(c)	1040.19
Shares plunge on nuclear bomb worries and a downgrading by Standard & Poor's.				
Peru	Lima Gen	1816.79	1815.12†	1799.06
Philippines	Manila Comp	1996.05	2011.45	2014.23
Poland	WIG	15038.4	15683.3	15669.3

[illegible]

THE NASDAQ STOCK MARKET

4 pm close June 1

[illegible]

AMEX PRICES

4 pm close June 1

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EASDAQ

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US equities rally as bonds push higher

AMERICAS

US shares gained ground on strong bonds, news of more corporate deals and investors switching out of technology shares into heavy-weight blue chips, *writes John Labate in New York.*

"We have a continuation of [the trend of] technology stocks getting pounded and we're probably going to have more on the way," said Bill Meehan, chief market analyst at Cantor Fitzgerald in Connecticut.

Much of the market's concern centres on the impact Asia will have on corporate performance. "It's becoming much clearer that the problems will be longer-lasting than many people were expecting," Mr Meehan added.

Computer shares were weighed down by Intel's announcement of delays in the release of a new semiconductor chip. Intel fell $2 3/16 to $69 as BT Alex Brown downgraded the stock to "market perform". The Nasdaq composite was off 12.51 or 0.7 per cent to 1,768.36.

However, it was a different story for blue-chip shares. By early afternoon, the Dow Jones Industrial Average was 76.98 or 0.86 per cent higher to 8,976.93. The Standard & Poor's 500 index rose 6.52 to 1,097.34.

Travelers Group surged $1¾ to $62¾ after the company said it would take a stake in Nikko Securities of Japan. Among Dow cyclical components, Allied Signal gained $1 1/16 to $44 1/16.

Ford Motor rose $1¼ to $53¾ after Salomon Smith Barney raised the stock to a "buy" rating.

Investors showed mild enthusiasm for American Home Product's acquisition of Monsanto. Monsanto shares rose $¾ to $55⅝, while AHP rose $⅛ to $49.

US Treasury bonds were higher on signs that the US economy was slowing. By early afternoon the benchmark long bond had climbed ⅝ to 104 5/32, yielding 5.776 per cent.

Software maker Sun Microsystems climbed $1⅜ to $41 1/16 after Morgan Stanley raised its rating.

TORONTO moved lower, mostly as a result of falling gold shares tracking a weaker bullion price. Barrick fell C$1 to C$27.05 and Placer Dome C$1 to C$17.25.

The TSE-300 composite index was 32.88 lower at 7,556.90 at noon.

Banks were also dull with *Royal Bank of Canada losing* 15 cents to C$88.85 and Canadian Imperial off 10 cents at C$49.35.

One exception to the broad downturn was Tarragon Oil & Gas which gained C$3.65 to C$13.90 following Friday's news of a merger with USX-Marathon of the US.

SAO PAULO moved steeply lower as investors continued to take profits. Telebrás came off 3 per cent to R$118.30 and at midsession the Bovespa index was 322 or 3.2 per cent lower at 9,525.

MEXICO CITY also slipped in early trading, although volume was said to be minimal. At midsession the IPC index was off 83.01 or 1.8 per cent at 4,447.00.

Rate worries hit Jo'burg

Worries about a rise for interest rates plus a shake-out for golds pushed Johannesburg lower, unwinding almost the whole of the strong gains built up on Friday. The all-share index closed off 141.7 at 7,487.9.

Karachi suffers worst day on nuclear fears

ASIA PACIFIC

The Karachi stock exchange crashed more than 12.3 per cent yesterday, its worst ever performance, *writes Farhan Bokhari in Islamabad*. The KSE-100 index closed at 911.44, down 128.75.

The market has lost 640 points or almost 40 per cent since May 11 when nuclear tests by India sparked a tit-for-tat response from Pakistan and sent Karachi shares steeply lower.

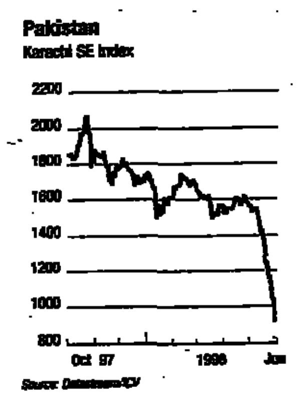
Yesterday's losses were also triggered by an announcement from Standard & Poor's downgrading Pakistan's long-term currency issuer credit rating and senior unsecured rating on Pakistan to B- from B+. *The short-term foreign currency issuer rating* was also lowered to C- from B.

Analysts such as Nasir Bukhari, chief executive of Karachi's Khadim Ali Shah Bukhari brokerage, said: "The latest losses are the result of panic selling by foreign investors who have placed sell orders on a large scale. People are not interested in Pakistan until circumstances stabilise."

Other analysts said the losses were also the consequence of worries over Pakistan's recent confrontation with private power companies. The government has forced those companies, which include a number of foreign investors as partners, to reduce their tariffs.

The measure is seen by businessmen as one of the most regressive steps ever taken against foreign investors.

Nervousness over economic turmoil in Asia combined with a weakening yen to send TOKYO down 2.2 per cent, *writes Michiyo Nakamoto in Tokyo.*



The Nikkei 225 Average fell 349.75 to close at 15,321.03 while Nikkei futures ended 370 lower at 15,330 as investors were unnerved by continuing jitters in Asian markets.

The fall took the Nikkei 225 to its lowest level since May 18. During the day the index moved between a high of 15,702.05 and a low of 15,321.03.

Trading was thin with 331m shares changing hands. Losers outnumbered gainers by 889 to 222. The Topix index of all first-section shares fell 24.79 to 1,196.70.

Sentiment in Tokyo was also affected by last week's news that the unemployment rate had hit an all-time high of 4.1 per cent. Combined with yesterday's weaker yen, the news intensified concerns about the Japanese economy. Figures from the motor sector showing May sales down 8 per cent for the 14th month in a row added to the gloom.

Traders expressed concern that the key index could fall further to about 15,000 points in the near term.

Financial issues were supported on news of the tie-up between Nikko Securities and Travelers Group of the US. Nikko Securities was the most actively traded issue and rose Y46 to Y482.

High-tech issues were shunned after the fall in New York. Hitachi fell Y38 to Y875 and NEC declined Y35 to Y1,355.

In Osaka, the OSE average lost 275.84 to 16,259.56 in listless trading.

HONG KONG was shaken by local and regional economic tremors and the Hang Seng index, up almost 155 points at the opening on Friday's measures to boost the economy, turned back to close 3.6 per cent down on the day, its lowest level since mid-January.

The index, which gave up 6.5 per cent last week, lost another 322.55 at 8,612.01 as investors continued to dump shares on rising local interest rates, a weakening yen and failing regional markets.

Turnover improved *HK$6.5bn* and, *analysts said*, futures-related trading accounted for much of the market's volatility.

Blue-chip property stocks led the decline, with the sector sub-index plunging 4.8 per cent. Cheung Kong lost HK$2.20 to HK$38.70 while fellow developer Sun Hung Kai Properties gave up HK$1.80 to HK$35.60.

SEOUL continued to rally in spite of the wholesale retreat underway elsewhere in Asia. Bank shares provided much of the upward momentum, jumping more than 3 per cent, boosted by talk of mergers. Korea Long-Term *Credit* rose Won465 to Won4,345 and Korea Exchange Won385 to Won3,630. The composite index ended 4.67 or 1.4 per cent higher at 336.70.

KUALA LUMPUR sank nearly 4 per cent as concerns over the economy depressed investor confidence following the release of worse-than-expected first-quarter gross domestic product figures. The composite index fell 20.24 to 518.00, and increasing uncertainty over economic policy-making also weighed on sentiment.

Anwar Ibrahim, deputy prime minister, said that in spite of the 1.8 per cent contraction in growth in the first quarter, the government would stand by its forecast of 2.5 per cent growth for the year.

This, however, was regarded as contradicting comments by Mahathir Mohamad, the prime minister, last week that the government was looking for ways to lower interest rates.

Blue chips were sold off, with Tenaga down 30 cents to M$8.05 and Telekom 65 cents to M$8.15.

EMERGING MARKET FOCUS

Weakness threatens Warsaw debutants

The Russian fall-out has hit Poland's stock market hard – last week the main share index fell almost 9 per cent. But the seemingly inexorable rise of the zloty has been halted.

The softer zloty has been broadly welcomed since the currency had been casting a cloud over exporters' prospects and threatened to send the current account deficit ballooning beyond the 5 per cent of gross domestic product officially forecast for this year.

But local observers are less sanguine about the setback for the share market.

The weakness of the Warsaw bourse may well affect today's debut by Softbank, one of a small but growing clutch of information technology companies started as private businesses after 1989.

These are increasingly looking to the stock market as a source of funds.

The IT sector has hitherto been represented by just two companies – Optimus, a computer assembler, and Computerland, which provides software and hardware. Both have seen their stocks tumble in the past few weeks.

But Softbank may fare better. Like Prokom, another recent bourse entrant, it owes much of its growth to close links with large state sector clients forged under the previous government led by former communists. And in spite of the change of ruling party last autumn, investors continue to be confident about their prospects.

Prokom's stock rose 2.5 per cent last month in contrast to a decline of almost 12 per cent by the benchmark Wig index. And Softbank saw its initial $36m share offer subscribed 7.2 times.

Like Prokom, Softbank has thrived in the face of foreign competitors like Hewlett-Packard and Digital, thanks to major contracts with state-owned corporations like Telekomunikacja Polska SA, the telecoms operator, PKO BP savings bank, and ZUS, the state-run pensions agency.

But TP SA is to be privatised later this year while last year's election of a new centre-right government was followed by management purges at both the telephone company and ZUS, which will play a pivotal role in Poland's forthcoming pension reforms.

Softbank had also set its sights on the soon-to-be-privatised Pekao SA bank, which holds one-fifth of the banking system's assets and is looking for a supplier for a $100m computer system.

Pekao SA bank has also seen its senior management replaced by the new government, probably dashing Softbank's chances of winning a share of the contract.

Indeed, the management changes in state-owned companies have set fresh challenges for Softbank and Prokom, weakening their links with clients who account for much of Poland's estimated $2bn annual computer services market.

Softbank's strategy is to buy other IT suppliers. The sector has an estimated 6,000 companies. Only several hundred have a turnover of more than $1m a year.

Thanks to its public offer, it will be able to move from being a small joint venture established in 1993 between ICL, the UK-based IT supplier, and Aleksander Lesz, a local partner to a medium-sized stock exchange company with a market value of 280m zlotys ($79.8m).

Last year Softbank's sales totalled 107m zlotys, thanks to a contract to supply IT to the state-owned PKO BP, Poland's largest retail savings bank. Its net profit reached 12.5m zlotys.

Set up ten years ago, Prokom saw its initial public offer price of 75 zlotys per share rise by 43 per cent when it was first quoted earlier this year. The stock is currently trading at 125 zlotys.

Christopher Bobinski

Asia drags Milan lower

EUROPE

Most of Europe was closed because of national holidays. Among the handful open, *MILAN* was dragged down by continuing worries over Asia. A fall in blue chips weighed on the Mibtel index, which dropped 382 to 23,553. Olivetti, the most active issue, fell L59 to L2,525 and Fiat lost L185 to L7,675.

MOSCOW suffered another sharp fall due to the absence of an emergency loan agreement with the IMF, and the RTS fell 19.58 or 10.2 per cent to 171.71, its lowest level since November 1996.

ISTANBUL fell, affected by declines in Russia and Asia. The IMKB National-100 closed down 123.12 or 3.3 per cent to 3,604.63.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Price for Trading on 02.06.98: Pool purchase price £/MWh	Final Prices for Trading on 05.05.98: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	14.24	14.02	13.81	1.15
0100	14.24	10.26	10.26	0.00
0130	14.24	14.02	13.81	1.15
0200	14.24	20.90	20.70	1.15
0230	14.24	20.90	20.70	1.15
0300	14.24	14.02	13.81	1.15
0330	13.95	14.02	13.81	1.15
0400	13.95	14.02	13.81	1.15
0430	13.95	14.02	13.81	1.15
0500	13.95	14.02	13.81	1.15
0530	13.11	10.74	10.74	0.00
0600	13.11	10.74	10.74	0.00
0630	13.11	11.81	11.81	0.00
0700	20.06	13.70	13.70	0.00
0730	19.65	15.66	15.51	1.15
0800	21.49	34.11	34.16	1.15
0830	22.26	28.10	28.26	1.15
0900	25.47	35.40	35.65	1.15
0930	44.70	28.15	28.42	1.15
1000	46.00	28.12	28.41	1.15
1030	38.98	24.02	24.34	1.15
1100	40.63	24.45	24.87	1.15
1130	44.10	27.53	28.16	1.15
1200	63.62	34.46	35.26	1.15
1230	74.29	34.94	35.08	1.15
1300	72.31	33.08	33.53	1.15
1330	37.05	23.23	23.44	1.15
1400	25.52	27.83	27.88	1.15
1430	34.49	37.56	27.52	1.15
1500	24.22	27.45	27.39	1.15
1530	24.48	26.72	26.68	1.15
1600	25.90	26.93	26.92	1.15
1630	28.02	27.42	27.52	1.15
1700	68.33	33.28	33.48	1.15
1730	57.56	33.08	33.22	1.15
1800	54.76	32.49	32.51	1.15
1830	21.28	26.81	26.68	1.15
1900	20.91	26.60	26.42	1.15
1930	20.41	20.41	20.21	1.15
2000	20.06	20.40	20.20	1.15
2030	19.95	16.81	16.61	1.15
2100	19.95	16.82	16.62	1.15
2130	32.89	33.37	33.17	1.15
2200	32.89	58.20	58.00	1.15
2230	101.17	30.62	30.42	1.15
2300	22.90	15.48	15.28	1.15
2330	19.66	15.49	15.29	1.15
2400	15.64	14.98	14.77	1.15

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0118 945 6789 between 8.30am and 5.15pm Monday to Friday.
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AFRICAN BANKING AND DEVELOPMENT

With aid inflows declining, private sector capital will have a bigger role to play in the continent's development, says **Tony Hawkins**

At the heart of further progress

As official capital flows wane, so sub-Saharan Africa's banking and finance sector will have to play an increasingly pivotal role in the region's development process.

Last year, official development assistance, accounted for 60 per cent of the $21bn net capital flow to sub-Saharan Africa. In nominal terms the $13bn received last year was $3bn less than in 1990, while in real terms it was down by a quarter according to the World Bank's Global Development Finance report.

Fortunately, declining aid inflows are being offset by increased private flows. These doubled last year to about $8bn from $4bn in 1996, although much of the increase took the form of bank lending to a handful of countries, leaving most out in the cold.

South Africa is by far the largest recipient of such capital. While 13 sub-Saharan countries borrowed on the syndicated loan market in 1997, commitments to South Africa accounted for 73 per cent of the total, increasing from $5bn in 1996 to $7bn last year.

Net foreign direct investment (FDI) last year was estimated at $3bn, little changed from 1996, but double the levels of the early 1990s. However, the region's FDI represents only 1 per cent of GDP compared with 2 per cent for developing economies as a whole. And United Nations figures show sub-Saharan Africa's share of the global stock of inward direct investment in developing countries has fallen to 5 from 21 per cent in 1980.

From 1990 to 1997 the region's share of the cumulative $470bn flow of FDI to all developing countries was only $23bn – less than half of 1 per cent – while only a few countries benefited significantly with 70 per cent of FDI going to oil producers (Angola and Nigeria) and to Ghana, Uganda and South Africa.

The reasons for sub-Saharan Africa's unpopularity with foreign investors are a matter of debate. Some claim country risk agencies exaggerate African risk levels; others that media coverage is biased and unsympathetic.

The balance is shifting, however, as donor groups, the Bretton Woods institutions and emerging market fund analysts increasingly portray sub-Saharan Africa as a region that has turned the corner economically, arguing that foreign investor attitudes are changing.

Certainly, the macroeconomic numbers have improved markedly since 1994. Real GDP growth has more than doubled, compared with the early 1990s, fiscal deficits have fallen, though they remain unsustainably large, while money supply growth and consumer inflation have slowed.

But the experience of three years is too short to justify claims that the corner has been turned. Africa is recovering, rather than growing, and average living standards will not return to their 1970 levels for another five to 10 years.

Possibly of greater concern is the fact that recent recovery has occurred without a commensurate improvement in investment. Investment ratios remain well below those achieved in other developing regions. Existing, not new capacity, technologies and skills, are being exploited, which benefits output but may do little for competitiveness.

Not only are private investment ratios far too low to sustain the level of growth needed to narrow the widening gap between living standards in sub-Saharan Africa and those in Asia and the first world, but public investment – at less than 5 per cent of GDP – is also inadequate.

The World Bank's 1997 World Development Report highlighted the problems associated with the decay of the African state. Yet policies lauded by donor agencies on the grounds of their contribution to fiscal deficit reduction, often contribute to the decline of the state.

To what extent deficit reduction reflects increased public sector efficiency, cuts in subsidies, privatisation of parastatals and debt forgiveness, rather than the fall in volume and quality of state services, has yet to be demonstrated.

Indeed, while all agree that more private sector investment is necessary for sustained growth in sub-Saharan Africa, there is a tendency to overlook the extent to which the state's decay has left a gap that cannot be filled by private enterprise.

A recent paper by top IMF officials* argues that attracting FDI requires "the maintenance of a stable macroeconomic environment, but also far-reaching improvements in governance to avoid capricious interference with private activity and to develop and maintain a transparent and stable legal and regulatory environment".

Missing from the IMF analysis though is the degree to which their long agenda – trade liberalisation, privatisation, civil service and banking reform, the liberalisation of agriculture and the greater labour market flexibility – are compatible with budget deficit reduction.

Donors are reluctant to acknowledge the danger that while reinventing the African state may improve the fiscal balance, it may also undermine competitiveness, through neglect of education, infrastructure and institutional capacity, while exacerbating already severe social problems such as poverty and unemployment.

The recent rise in FDI, albeit from a tiny base, is welcome although as it is concentrated in a handful of countries, heavily tied to exploiting natural resources, especially oil and gas, and reflects political change in just one country – South Africa – it would be unwise to read too much into it.

Only two Sub-Saharan economies fit into the "strategic market" category in the sense that they are sufficiently important for multinationals to feel they must be represented there. But both of the region's two largest economies – South Africa and Nigeria – continue to underperform.

Economic renaissance in Nigeria depends upon a political accommodation and far-reaching economic reforms that successive governments have been unwilling to embrace.

South Africa, whose economy has grown more slowly in the 1990s since President Mandela's release from detention than in the sanctions years of the 1980s, has still to come to terms with the new global economic order, although, if successful, negotiations for a free trade agreement with the EU could accelerate the globalisation of the economy with spin-off effects for southern Africa and beyond.

For the rest of the region, market size is a crucial constraint. Study after study of the motives underlying footloose foreign investment – projects not tied to specific locations as in the case of energy, mining, privatisation and tourism – emphasise market size and growth rates along with the availability of skills and infrastructure. Without a minimum critical mass, it will be difficult to attract the kinds of foreign investor the region so desperately needs.

In spite of progress in economic reform, many – probably most – sub-Saharan countries have still to reach the minimum threshold necessary to attract substantial inflows of foreign private investment. In many cases, markets are simply too small, skills too scarce, the infrastructure inadequate and investment opportunities too limited.

The entire sub-Saharan region today accounts for less than 2.5 per cent of global GDP (calculated by the IMF on a purchasing-power-parity basis), of which 0.9 per cent is contributed by South Africa and Nigeria.

This leaves some 45 countries that account for 8 per cent of the global population contributing 1.5 per cent of global GDP and only 0.8 per cent of world exports. However, because intra-African trade is only 9 per cent of the total, there is considerable scope to build critical mass through regional trade liberalisation.

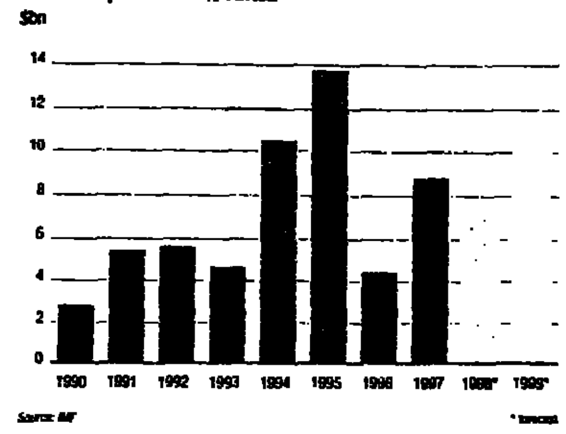
In the light of this size constraint, opportunities for FDI are likely to continue to be in the energy, mining and agriculture sectors, boosted by privatisation in a growing number of countries, and by private-public partnerships in infrastructure provision and in tourism in a small number of countries.

The snag with many of these investments is that they are capital-intensive, rather than job-intensive. And if Africa is to attract private foreign capital on the scale needed, it must offer the investor new sources of competitive advantage rather than a reliance on natural resources on the one hand or low-skilled, low-wage labour on the other. That is the challenge for the 21st century.

* *Africa: Is This the Turning Point? Stanley Fischer, Ernesto Herandez-Cata and Mohsin Khan. Paper on Policy Analysis and Assessment of the International Monetary Fund, May 1998.*

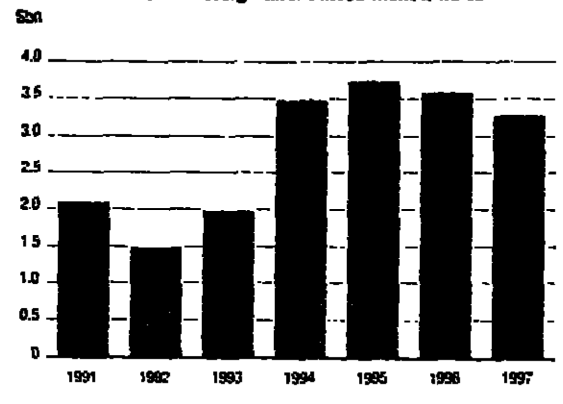
The banks will play a pivotal role in attracting foreign direct investment to the continent in sectors such as agriculture and mining, and in increasing trade *Sarah Murray/AP*

Private capital flows to Africa



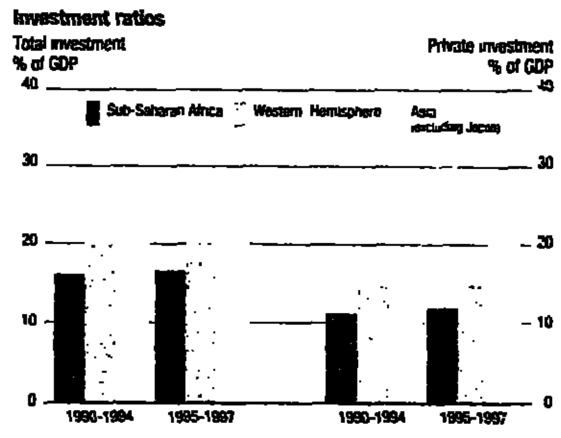
Source: IIF * forecast

Sub-Saharan Africa: foreign direct investment inflows



Sources: UNCTAD World Investment Report, 1997; World Bank 1998

Investment ratios



Source: IMF

REFORM • by Tony Hawkins

Deregulation is only part of the story

A balance must be struck between liberalisation and improved supervision

Financial liberalisation and deregulation have changed the role and nature of banking in sub-Saharan Africa, though in most countries there is still a long way to go before the conditions needed for an enabling business environment are created.

While central banks in many, if not most, countries continue to use direct controls of one kind or another, the use of indirect and market-driven measures is increasing as interest and exchange rate systems are liberalised and controls over bank lending relaxed or abandoned altogether.

Positive real interest rates are now the norm; commercial banks are no longer told to whom they must lend and at what interest rate; exchange controls are being dismantled, especially in respect of current transactions, while exchange rates have been left to find their own levels.

Prudential lending and capital adequacy guidelines have been introduced though their implementation is uneven in many countries. Central banks are being strengthened to better perform their supervisory and regulatory role, and many governments are working hard to create active money and capital markets. Banks have been restructured, recapitalised, privatised or liquidated.

The African Development Bank estimates that the number of government-owned banks was reduced from 140 in the 1980s to 115 in 1993 and the figure has since fallen below 100.

Over the same period, the number of private banks increased by more than 50 per cent, while their share of the total assets of the banking system exceeds 40 per cent. In 1997, there were a dozen stock markets in the sub-Saharan region with the leading markets located in South Africa, Nigeria, Kenya and Zimbabwe, but the smaller markets are catching up fast with the domestic market capitalisation topping the 3bn Pula ($775m) level in Botswana in April.

Markets have either opened recently or are planned in Malawi, Tanzania, Uganda and Mozambique, while a regional stock market is scheduled to open later in the year in Côte d'Ivoire. Many African stock exchanges have forward price earnings ratios of less than 10, reflecting undervalued stocks and scope for future growth.

In spite of these impressive advances, banking systems remain fragile in many African countries. Government-owned or controlled banks still dominate in many African countries says the 1997 report of the African Development Bank. "In most cases banks have weak management and inadequate supervision," the report says.

Banks continue to be required to finance government fiscal deficits and loss-making public enterprises, while credit to the private sector mainly goes to large and well connected firms.

In October 1995, an IMF report contrasted the greater success of financial liberalisation programmes in Asia than in Africa. The development of financial institutions in Africa, it said, had been retarded by unstable macroeconomic environments, widespread public ownership of financial institutions and their main clients, and the lack of viable institutions to mobilise savings, especially in rural areas.

In particular, it noted, the increase in the ratio of broad money to GDP in Africa chiefly reflected public sector borrowing – in sharp contrast to the Asian situation.

Two years later, however, the IMF had changed its tune – acknowledging with the benefit of recent Asian experience that market-driven reforms have their downside as well as their undoubted benefits. Financial sector weaknesses in Asia, it said, had contributed to the low-quality or excessive investment that was partly responsible for last year's financial crisis.

The World Bank is even more blunt in this year's Global Development Finance Report, noting that the most pressing problems in Asia's finance sector were distorted incentives, lax regulatory standards, poorly managed financial liberalisation and inadequate disclosure and supervision which had "encouraged excessive risk taking".

The warnings are timely. Some of the blame for bank failures in Kenya, Nigeria, Zambia and most recently Zimbabwe, can be laid at the door of poorly managed financial liberalisation programmes. The same lax regulation, inadequate disclosure and weak supervision that blighted Asia's reforms have bedevilled recent African experience.

The politicisation of bank licensing, perhaps most marked in Nigeria, political intervention in the bank regulation and supervision process, and the fostering of "crony capitalism" created two-tier banking systems in a number of countries.

Often, the newer, indigenous banks have been forced to pay higher interest rates to attract deposits or rely on politically allocated funds from parastatals and government departments. In return they have been forced to make subsidised and high-risk loans, frequently leading to high ratios of non-performing assets in their books. The resulting "flight to quality" has left the second-tier, often under-capitalised, banks vulnerable to adverse market developments such as falling commodity prices or severe drought or flooding.

In a number of countries, the full impact of some of these developments has still to be experienced. But because private capital flows have been small in all but a handful of countries, and offshore borrowing restricted by the lack of creditworthiness of African enterprises, the fall-out from the collapse of banks and financial sector weakness is less of a threat in Africa than in Asia.

Inadequate bank regulation and supervision is partly an administrative and managerial problem – the consequence of scarce skills and inexperienced central bankers.

But political interference – the determination to protect financial institutions with large loans to government agencies and to prominent politicians and businessmen – has been a substantial problem.

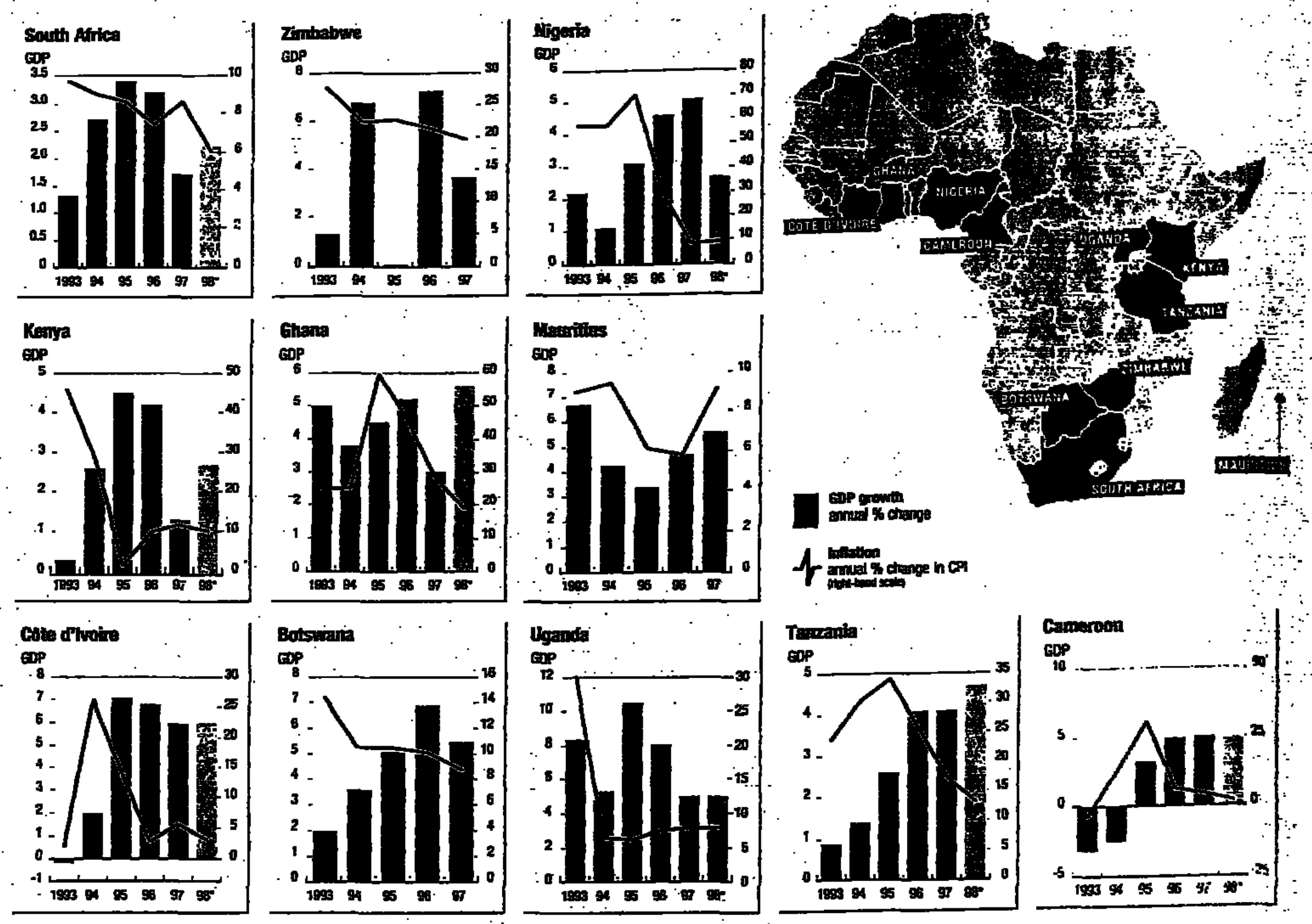
Policymakers must therefore tread a fine line between financial liberalisation – encouraging the launch of new banks and financial institutions to intensify competition and improve service – on the one hand and improved surveillance and supervision on the other.

Depoliticising the banks – by privatising them – is only part of the story. Depoliticising the central bank and ensuring it has far greater autonomy than at present in respect of bank licensing, supervision and surveillance is essential to monetary stability and growth.

Bank reforms in selected African countries

Liberalisation of interest rates	Bank restructuring	Bank privatisation	Liquidation of banks
Algeria	Algeria	Cameroon	Benin
Benin	Cameroon	Côte d'Ivoire	Côte d'Ivoire
Burundi	Côte d'Ivoire	Guinea-Bissau	Guinea
Congo	Ghana	Kenya	Kenya
Côte d'Ivoire	Kenya	Madagascar	Niger
Gambia	Madagascar	Mozambique	Rwanda
Ghana	Mali	Senegal	Senegal
Kenya	Rwanda	Uganda	Zambia
Mozambique	Tanzania	Zimbabwe	Zimbabwe
Zambia	Uganda		
Zimbabwe	Zimbabwe		

Source: ADB/FT



Schoolchildren in Mozambique: some African countries plan to spend expected savings on education AP

DEBT RELIEF • by Mark Suzman

Gaining new momentum

The initiative to reduce the continent's debt is being taken more seriously

Driven by a combination of growing pressure from international charities, a continued improvement in Africa's overall economic performance and changing perceptions about political stability in many African countries, the ongoing international initiative to reduce the continent's vast debt is gaining new momentum.

The sight of 70,000 debt campaigners forming a human chain around the G8 summit in Birmingham last month to demand more debt relief for poor countries was the most tangible sign to date of the higher profile of an issue that until recently was the preserve of bankers and finance ministries.

The campaign has prompted renewed discussion on the issue by developed countries and international financial institutions and generated several competing proposals on how best to move forward.

The problem, however, remains lack of consensus. Some countries, such as the UK, are pushing for a more comprehensive and flexible solution to make it easier for countries to qualify for debt relief and others, such as Germany and Japan, are taking a harder line, insisting that governments demonstrate fiscal probity first.

The problem hinges on perceptions of how well the Heavily Indebted Poor Countries debt initiative – launched with great fanfare in late 1996 by the World Bank and International Monetary Fund – has been working. HIPC promised to open a new chapter in the debt issue by aiming to reward countries that followed consistent and sensible financial policies with debt relief that would free up extra resources for domestic spending. "It is very good news for the poor of the world," James Wolfensohn, World Bank president, said at the time.

The most innovative part of the plan was that it linked debt forgiveness by both multilateral agencies and bilateral governments with the aim of leaving countries with a "sustainable debt" burden: a debt to export ratio of between 200 and 250 per cent, a debt service to exports ratio of between 20 and 25 per cent and a present value debt to government revenue ratio greater than 280 per cent.

Of the 40 or so countries eligible for such relief, 32 are in Africa. But to take advantage of the initiative, governments must have a solid track record in financial management: debtors are effectively required to demonstrate six years of fiscally prudent management for the measures to take effect.

So far, four African countries have passed the eligibility threshold for HIPC debt relief: Uganda, Burkina Faso, Côte d'Ivoire and Mozambique. The expected savings are to be targeted at extra spending on critically needed primary education and health care programmes.

But in practice, frustration is growing at stringent conditionality programmes delaying the release of new money. Only Uganda is due to start benefiting from HIPC in the coming year, with the other nations having to wait another year or two before reaching their "completion points" and becoming eligible for debt relief. Most countries applying for relief under HIPC have to wait until 2001-3 before receiving benefits.

These problems have led to criticism from a number of international aid groups and African governments who are calling for substantial modifications. They charge that HIPC is too little, too late, exacerbating the endemic shortage of funds for poverty reduction programmes.

Most important, they are demanding more flexible eligibility terms, especially for "post-conflict" countries such as Rwanda that are recovering from civil war and other internal problems and are in desperate need of extra revenue but have been unable to build up the necessary fiscal track record.

They also argue that countries with "interrupted track records" but a sound fiscal policy – such as Tanzania and Ethiopia – should not be penalised if they show good faith in pursuing IMF-led restructuring programmes.

"In terms of the current rules, some of these countries have a much longer wait to become eligible for debt relief than is necessary, with serious consequences for poverty reduction," says Justin Forsyth, an Oxfam director.

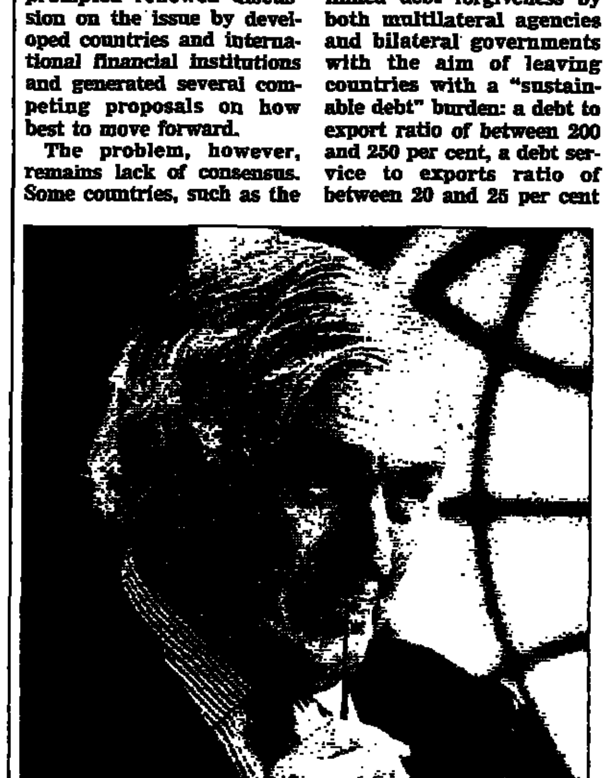
Added to this is the concern that the initiative will not provide the windfall in resources many governments had been hoping for. For example, because Mozambique was already failing to service most of its debt before entering the HIPC programme, in practice its payments even on a vastly reduced debt burden have not changed dramatically. As a result, the extra income it has to spend on domestic activities is relatively small – estimated at $7m-$23m every year.

World Bank officials admit this is a problem, but point to the important benefits generated by HIPC. "The thing to bear in mind is that Mozambique was owing a lot more money than it was paying," says Jeffrey Katz, the bank's principal economist for Africa. "There is some cash flow relief even in the near term, but the initiative is really geared to deal with this problem of an overhang of debt."

Nevertheless, the call for further action has been met with sympathy. The UK government in particular has sought to persuade international financial institutions and other bilateral donors to adopt a programme that would make at least two-thirds of eligible countries part of the HIPC programme by 2000.

But when Tony Blair, the UK prime minister, tried to persuade his partners to take further action on the matter at the Birmingham summit, he was opposed by Germany and Italy. The US, while an enthusiastic backer of HIPC, has been reluctant to relax the strict conditionality and is ambivalent about any accelerated debt relief. As a result, the G8 merely issued a statement supporting "the speedy and determined extension of debt relief to more countries" while urging them "to take all the policy measures needed to embark on the [HIPC] process".

Despite this setback, even its critics admit that HIPC is an improvement on previous debt reduction efforts. And following the renewed US focus on Africa generated by President Bill Clinton's successful trip there earlier this year, campaigners remain hopeful that the administration may soon relax its stance, at least for the special case of "post-conflict" countries.



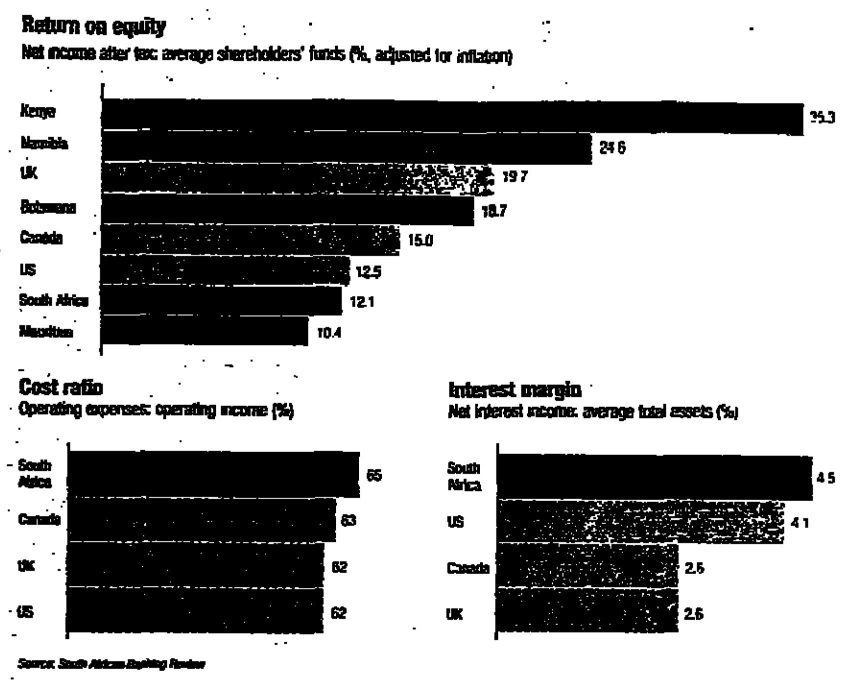
World Bank President James Wolfensohn: 'very good news for the poor of the world' Reuter

US President Bill Clinton with Ugandan children: campaigners hope the administration may soon relax its stance AP

SOUTH AFRICA: DOMESTIC MARKETS • by Bernard Simon

Little reason to celebrate

Despite strong earnings, bankers are faced with a long list of problems at home



Source: South African Banking Review


One of many: a cash-in-transit heist near Johannesburg: hardly a week passes without a bank robbery or a military-style attack on a cash delivery van

Running a big bank in South Africa these days is no fun. Banks' earnings and share prices are rising strongly, and the end of South Africa's political isolation has opened new horizons for expansion and diversification at home and abroad. But bankers also have persistent headaches.

Hardly a week goes by without a bank robbery or a military-style attack on a cash delivery van. More than a dozen security guards have died in such attacks and robbers have made off with R82m ($16.4m) since November 1996.

On another front, the banks face calls to take what Bob Tucker, chief executive of the Banking Council of South Africa, describes as a "semi-philanthropic role in facilitating the transformation process". This means pressure to advance more money to small entrepreneurs and farmers; to play a bigger role in financing the huge backlog in low-income housing; and to write off what is loosely described as "apartheid debt".

Mr Tucker says the banks could be forced to make the same misguided lending decisions as their troubled east Asian counterparts. "At our peril do we allow that to happen, but insidiously it's being allowed to happen."

The political pressures are reflected in banks' growing portfolio of non-performing housing loans in black residential areas. About 35,000 such loans are more than three months in arrears, and some as long as eight years. But the banks have been unable to evict a single resident for fear of endangering their officials' lives and sparking civil unrest.

Then there are the challenges of everyday business. Bankers complain about the poor service provided by Telkom, the partially privatised telephone company, leading to regular disruptions of their computer and automated teller networks.

Trained computer staff and managers are hard to come by. The banks have also been forced to pay close attention to cash-strapped but spendthrift provincial governments and local authorities, to which they have a sizeable exposure.

Among the retail banks' priorities has been a cost-cutting drive likely to shrink their 3,400-strong branch network and greatly reduce their workforce over the next few years. Nedcor in the second half of 1997 became the first group to bring its expense-to-income ratio below 60 per cent, compared with the industry norm of almost 70 per cent a few years ago. Absa unveiled plans in early May to combine its four retail bank subsidiaries (Volkskas, United, Allied and Trust Bank) under the Absa banner.

The drive to improve profitability in the face of political pressures and competition from niche players has led the banks to focus on the top end of the market.

Meanwhile, the financial services industry is rethinking business strategies. James Slabbert, banking analyst at Merrill Lynch in Johannesburg, says, as in many other countries, "the feeling is you should be big, or be a niche player". With just four groups (Absa, Standard, Nedbank and FirstNational) controlling more than 80 per cent of the retail banking market, the scope for further mergers and acquisitions is limited.

But the search for wider alliances is in full swing. Earlier this year, the favoured route seemed to be "bancassurance". In the country's biggest financial services merger, Anglo American, the mining and industrial powerhouse, combined its banking and insurance interests – FirstNational Bank and Southern Life, respectively – with the fast-growing banking and insurance interests of RMB Holdings. A new holding company, known as FirstRand, was listed on the Johannesburg stock exchange in late May.

The architects of the deal aim, among other things, to use the customer base and distribution network of First National Bank and Rand Merchant Bank to expand the insurance market for Southern Life and RMB's life arm, Momentum Life.

Just a few days after that deal was announced, Stanbic, Standard Bank's parent, and Liberty Life revealed they were in merger talks to create South Africa's biggest financial services group. Rumours also surfaced that Old Mutual, the biggest life office, and Nedcor would move closer together.

But neither of these deals has so far come to fruition. Liberty, which owns 42 per cent of Stanbic, pulled out after failure to agree on terms. Instead, it has indicated that it may put its stake in Stanbic up for sale. Stanbic's second biggest shareholder, Gold Fields of SA, with a 10 per cent interest, has also shown a willingness to sell.

The collapse of the Stanbic-Liberty talks has raised questions about the wisdom of bancassurance. "A bank doesn't need an insurance company," says Mr Slabbert. "It's more that insurance companies need banks."

Critics also say that bank-insurance mergers risk upsetting valuable relationships, which could be costly in the relatively small world of South African business.

Some institutions have openly rejected the bancassurance route. Investec, a fast-growing investment bank, has made foreign expansion its top priority. In recent months, it has bought Guinness Mahon, the UK-based asset management group, and has bid for what remains of Hambros plc, the merchant bank. Investec has also extended is presence in Australia and Israel.

Foreign institutions have flocked to South Africa over the past five years. As of December 1997, 10 foreign banks had set up full subsidiaries, nine operated branches and 59 had opened representative offices. The foreigners have concentrated mainly on corporate finance, treasury operations (such as currency trading) and investment banking.

Local bankers are braced for an onslaught by non-bank institutions from North America and Europe, such as GE Capital and the big mutual-fund companies. Investec earlier this year sold its vehicle leasing arm to ABN-Amro, the Dutch group.

One gap in the South African banking market is at the low-income end. Poor infrastructure in the townships, bad-debt experience and sheer ignorance, among other factors, have kept established players from expanding into this market.

A new group of specialist institutions has had considerable success in "micro-lending" to individuals and small businesses, many in the informal sector. Among the most successful is Theta Securities, which has about 250,000 customers earning between R1,000 and R2,500 a month. Bad debts have been minimal and Theta's net income more than doubled to R43.8m in the six months to December 31 1997. New Africa Investments, one of the biggest black empowerment groups, unveiled a deal in mid-May to take a controlling stake in Theta. The question now is whether the established banks will try to muscle in on this business.

SOUTH AFRICA: MARKETS ABROAD • by Victor Mallet

'Big brother' is heading north

Banks are pushing into a new business hinterland north of the Limpopo

Since the release of Nelson Mandela in 1990 and the abolition of apartheid, South African companies have pushed vigorously northwards into a new business hinterland north of the Limpopo river. Along with mining companies, supermarket chains and multinationals such as South African Breweries have come some of South Africa's big banks and financial services groups.

It has not simply been a matter of South Africa's re-entry into the international community. Many African countries, especially in the southern half of the continent, have introduced political and economic reforms which have created new opportunities for foreign investors. Privatisation is under way, economies have finally begun to grow, and trade within the region has expanded rapidly.

Richard Laubscher, chief executive of Nedcor, the South African banking group, spoke recently of "fabulous growth" in African banking operations outside South Africa itself when he announced robust group results for the six months to March 1998.

Profits and assets in the region had doubled, he said. Swaziland was slower than expected, but operations in Namibia, Zimbabwe and Lesotho were doing well. Nedcor had invested in the State Bank of Mauritius, giving itself access to India and Madagascar, and was investigating investment opportunities in Tanzania, Malawi and Mozambique.

But it is Standard Bank, the South African group that is the continent's biggest bank, that has taken the lead outside South Africa's borders.

On May 20 this year it announced its 15th African operation with the purchase of 72 per cent of Malawi's Indebank Financial Services for $10m – a small sum by international standards but representing about 1 per cent of Malawi's annual gross domestic product.

One of the directors of the Malawian group that sold the company to Standard Bank said the presence of the South African bank, with its modern management systems and technology, would help "to bring our somewhat sleepy institutions kicking and screaming into the 21st century".

In recent months Standard Bank has also increased its stakes in its banks in Nigeria, Uganda and Kenya and bought from Barclays Bank UK its 60 per cent holding in Barclays Bank Swaziland. Its next target may be Angola.

Standard Bank has been active in the region since it bought the African operations of ANZ Grindlays six years ago for £24m. "It turned out to be a bargain," says Anthony Wright, deputy managing director responsible for Standard's African Banking Group, "because we make more than that each year now."

Africa, however, remains a tough market. Competition is increasing in some capital cities, and South African banks are trying to focus on the profitable businesses of commercial banking and trade finance rather than retail banking in countries where most inhabitants remain very poor.

For all the talk of an "African renaissance", corruption remains a problem, skilled employees are scarce, economic recovery is patchy and the determination of governments to liberalise remains questionable. "There are still tremendous obstacles," says one Johannesburg-based banker. "Where are the judicial systems? Where are the accountants, the lawyers, where is the infrastructure?"

In April, the Zimbabwe authorities closed Roger Boka's collapsing United Merchant Bank and froze its assets under anti-corruption laws because of suspicions of fraud involving millions of dollars of bonds.

In the short term, this bank failure – by shaking local banks, especially those owned by Zimbabwean entrepreneurs such as Mr Boka – benefited foreign banks. "We've got deposits coming in through our door at a rate that we can hardly handle," says Mr Wright of Standard. But it also raised questions about the adequacy of banking supervision in Zimbabwe and the influence of politicians in the financial sector.

Another obstacle for South African banks, as for all South African investors, is resentment of the economic and business clout of "big brother" down south. Just as Nigeria is often resented for throwing its weight around in west Africa, so South Africa faces accusations that it tries to dominate the region. All a bank can do is to try to blend in as much as possible in the countries where it operates and point out how many nationals it employs.

Standard Bank has an additional, historical problem: it is often confused with Standard Chartered, and usually has to trade as Stanbic (the acronym is from Standard Bank Investment Corporation, the holding company). They were once part of the same London-registered bank founded in South Africa in 1862, but Standard Chartered disinvested from South Africa in the 1980s while keeping the other African operations.

In spite of the challenges, Standard Bank manages to run a profitable African business which accounts for about 15 per cent of group profits today – including profits from foreign currency deposits and trade finance routed via London – compared with only about 3 per cent five years ago.

In countries where governments maintain high banking margins to protect inefficient state-owned banks, a modern, efficient group can make big profits. Mr Wright says his African operations made a return of more than 28 per cent on equity last year, compared with 20 per cent for the Standard Bank group as a whole, and the target now is 30 per cent.

Standard Bank is investing $26m in new technology for its African operations, including software to run foreign exchange accounts in the continent's liberalised markets, dial-in systems for customers and VSAT (very small aperture terminal) satellite links.

"Eventually I want to run Africa off one computer in Johannesburg," says Mr Wright, who is planning to consolidate existing operations and ensure the technology is working well before launching any big new expansion drives.

Standard Bank's technology drive may be good for the bank, but it is also a sign of how far the rest of Africa has to go to catch up.

As one banker commented in a discussion behind closed doors at the World Economic Forum's recent southern African summit in Namibia, everybody praises new technology but only a few organisations have the money or the ability to install it. It was no good having an automated clearing system in an African country, he said, if only two banks – Standard Bank and Barclays, perhaps – were able to participate.

THE CFA FRANC ZONE • by Tony Hawkins

Euro a mixed blessing

Ties to Europe's currency may lower inflation, but could also slow growth

Next January's launch of the European single currency will have far-reaching implications for the 14 member states of the CFA franc zone. Their common currency is pegged to the French franc at a fixed rate of CFA Fr100 to the franc, but the peg will have to shift from the French currency to the euro. That in turn will mean presumably that the 11 European states that launch the euro will have to ratify the terms of the future linkage between the two currencies.

Though Paris seems likely to oppose it, the changeover could also shift the responsibility for guaranteeing the convertibility of the CFA franc from France to the new European Central Bank.

Late last year, however, Paris made it clear that it would continue to manage the CFA zone after the launch of the euro and that the French Treasury would retain sole responsibility, from the viewpoint of Emu states, for dealings with franc zone.

The 14 CFA countries – 12 of them once French colonies – belong to two separate monetary areas. Eight West African countries – Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo – are members of the West African Monetary Union (WAMU), while another six – Cameroon, Central African Republic, Chad, the Republic of Congo (Brazzaville), Equatorial Guinea and Gabon – belong to the Central African Monetary Area (CAMA).

The central banks of each monetary area issue their own version of the CFA franc which is legal tender only in their own region. But the guaranteed convertibility of CFA into the French franc and the fact that both have the same parity against the French currency, means that in effect the zone is a single currency area.

A recent IMF study* concludes that the franc zone will benefit from being linked to the euro in three main ways:

- With the EU accounting for about half the franc zone's exports, stronger post-Emu growth will boost demand for the CFA's products;
- The shift from a French franc peg to a euro peg should increase the stability of the nominal exchange rate for the CFA franc; and
- The change to a fixed link with the euro would mean that the freedom of capital flows between France and the CFA zone would extend to the other euro members, thereby accelerating the globalisation of the CFA member states.

The chief disadvantage arises from the danger that the CFA franc would appreciate alongside a "hard" euro thereby undermining the region's competitiveness. This danger is all the more acute in the wake of the Asian financial crisis and the competitive depreciations of south-east Asian currencies.

The harder the euro, the greater the probability of a repetition of the 1986-93 period when the CFA franc appreciated with the French franc against the US dollar. This coincided with weaker commodity prices for the zone's exports on the one hand and outbreaks of political unrest on the other as a result of which the zone's economic situation deteriorated.

The rate at which the CFA is pegged to the euro will depend on the French franc-euro parity, though CFA member states will have the opportunity to opt for a lower peg – and thereby effective devaluation – if this is deemed desirable. The signs are that, the success of the 1994 devaluation notwithstanding, CFA member states will opt to retain the existing parity with the French franc.

The argument that exchange rate stability promotes investment and trade as well as price stability is strongly supported in the zone.

At issue, however, is whether primary product exporters and emerging manufacturing concerns can retain and build their market share in a fixed exchange rate environment, especially at a time when their competitors – in Asia, eastern Europe, Latin America and other parts of Africa – are playing the game by different rules, using exchange rate depreciation as a competitive weapon.

Oil is the zone's top export and long-term forecasts by the World Bank – to the year 2006 – suggest that the price of petroleum will fall relative to that of non-fuel commodities as a whole. The same projections suggest that non-fuel commodity prices will firm at an average annual rate of 1.1 per cent between 1997 and 2006 while prices of manufactured goods rise at double that rate.

Since these projections were published, primary commodity prices have fallen far more sharply than anticipated, exacerbating the pressure on West and Central African exporters.

Even if the potentially over-optimistic projections are right, a fixed parity with an appreciating euro could do more harm than good, reversing some of the gains achieved since the 1994 devaluation.

It is no coincidence that CFA zone growth has accelerated over the past four years, driven in part by the 38 per cent real depreciation of the CFA franc between December 1993 and May 1997 in CAMA countries and a 29.5 per cent depreciation in WAMU countries. GDP growth accelerated from 0.4 per cent in the 1986-93 period to 5 per cent between 1995 and 1997.

As was to be expected, inflation surged after devaluation from less than 1 per cent annually in the 1986-93 period to average 15.8 per cent between 1994 and 1996, falling sharply in 1996/97 to only 4.5 per cent. Budget deficits have declined from 6.5 per cent in the 1986-93 period to 1.8 per cent in 1996 while foreign public debt was down to 105 per cent of GDP in 1996 from 130 per cent in 1994.

However, with real per capita income having fallen some 20 per cent between 1981 and 1994 and less than 7 per cent of this having been recouped since, CFA governments can draw only limited satisfaction from recent economic performance. The region remains overwhelmingly poor, heavily reliant on a narrow range of primary product exports – oil, coffee, cocoa, cotton – and dependent on both aid and debt-forgiveness.

Although investment has recovered from the lows of the early 1990s, the investment/GDP ratio of 18 per cent since 1994 is lower than the 20 per cent average for the stagnant 1980s. Whether such countries can afford the luxury of fixed parity in a world where competitive advantage is dependent on natural resources and cheap labour is increasingly inadequate, is problematic.

Given the zone's poor skills and technology base, the probability is that member states will need to use currency devaluation as a means of retaining and building competitiveness. Being tied to a strong euro will be a mixed blessing. It may deliver low inflation, but it may also bring unemployment and sluggish export and output growth.

* = *International Monetary Fund Working paper, November 1997: The CFA Franc Zone and the EMU: Michael T Hadjimichael and Michel Galy.*

Abidjan dock workers: stronger post-Emu growth will boost demand for the CFA's products Sarah Murray

KENYA • by Michela Wrong

Dark cloud has a silver lining

As economic crisis looms, one benefit may be a shake-out of the sector

The banking sectors in East Africa's member states have three things in common. Banks tend to focus on cities, bypassing rural areas; in the middle to small range, Asian owners predominate: and the number of banking institutions far outstrips what can be justified by either population, savings levels or economy size.

In Kenya, at least, that picture is about to be shaken up. A looming economic crisis – expected to be one of the worst in the country's history – is likely to have at least one beneficial side effect: stripping the excess fat from a bloated industry.

"The banking sector will emerge fitter and leaner," predicts one analyst. "Anyone who survives 1998 and 1999 will be in a very good position to continue."

A weeding-out is long overdue. "Grossly over-banked" is the phrase most experts would use to describe Kenya, where assets of Ks414bn ($6.7bn) are divided between 53 commercial banks, 16 non-bank financial institutions (NBFI), four building societies, two mortgage finance companies and 40 forex bureaux.

The industry began expanding 20 years ago, when the government opened up a sector largely in foreign hands. Establishing a bank had never required so little money and entrepreneurs rushed in to mop up the small deposits and rural savings ignored by existing institutions.

The present day plethora masks a far from healthy situation. Fifteen of the banks control close to 80 per cent of the industry's asset base and account for 91 per cent of its profits. That leaves a bevy with tiny deposits, risky business practices and shadowy futures.

On the surface, the industry appears to be thriving, with pre-tax profits rising to Ks18.8bn ($303m) in 1997 from Ks17.4bn ($281m) in 1996. But the figures are deceptive, say Central Bank of Kenya (CBK) officials, as profits are being made at the expense of adequate provisions for non-performing loans.

Since 1984, 29 banking institutions have failed in a succession of banking crises. Many have involved the so-called "political banks": established by politically connected individuals to tap parastatal funds used to make loans to members of the same political elite, never to be repaid.

In coming months, the casualty rate looks certain to rise. As a result of a donor aid freeze, collapse of the tourism industry and patchy agricultural production, Kenya's gross domestic product is forecast to grow only 1-2 per cent this year.

The government is borrowing ever greater sums domestically to cover a yawning budget deficit. Domestic debt now stands at Ks158.3bn ($2.6bn) and the issue of Treasury bills to cover that sum is keeping interest rates in the high 20s.

If that has provided the commercial banks with a temporary windfall, it has squeezed the private sector out of the credit market. Small businessmen are struggling to sustain punishing overdrafts. Their difficulties, outpacing the still simmering problem of bad loans made by political banks, have led to a marked deterioration in asset quality.

"A lot of banks are finding that their customers simply cannot service their debts," says a general manager. "They are spending a lot of time ensuring that they don't push their customers over the cliff."

The proportion of non-performing loans to total advances increased by three percentage points to 21 per cent last year. The industry's safety net, CBK believes, is not large enough for this level. The proportion of loan loss provision to non-performing advances rose from 46 to 48 per cent last year, but CBK wants to see a figure of 75 to 80 per cent.

In its 1996 Annual Supervision Report, in which CBK rates institutions on the basis of capital adequacy, asset quality, earnings and liquidity, only nine banks were classified as "strong", with the rest rating only "satisfactory" or "fair and below".

The 1997 report, about to be published, shows further deterioration. While only one bank failed that year, compared to three in 1996, the number of banks winning the "strong" seal of approval fell to seven and their market share dropped to 25 from 28 per cent. Those judged "fair and below" – that is, weak – rose to 24 from 13, with their market share surging to 35 from a previous 24 per cent. "Asset quality is deteriorating, earnings are down and the capital adequacy ratio is suffering," says a stockbroker. "Bad loans are the problem."

Under the forceful leadership of its governor Micah Cheserem, CBK has toughened up supervision and has drawn up a range of policing measures aimed at pre-empting a south-east Asian-style implosion.

From January 1999, all banks will be obliged to raise their minimum capitalisation from Ks75m ($1.2m) to Ks200m ($3.2m). Banks have also been ordered to regularise insider lending – directors lending to themselves – an abuse recently exposed in the case of state-owned Kenya Commercial Bank.

The central bank has drawn up amendments to the Banking Act which would ensure advances to bank executives were first approved by the board, not just authorised by management, and giving CBK the power to take disciplinary action if boards failed to act.

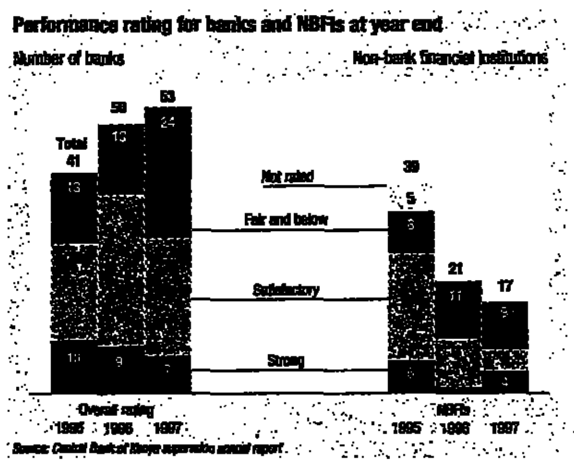
The new legislation would give CBK, which currently relies on moral suasion, the right to penalise banks not making adequate provisions for non-performing loans. If passed later this year, it would also force banks to improve disclosure.

Some analysts fear that such steps may be introduced too late, warning that the T-bill bubble must eventually burst and non-performing loans are close to levels seen in emerging markets that experienced banking crises. Because of the level of bank-to-bank lending, they warn, the collapse of one small institution could have a domino effect.

Others believe approaching hard times will trigger overdue partnerships and acquisitions, while stopping short of a full-blown crisis. CBK clearly believes it has been sufficiently careful to justify lifting a longstanding moratorium on new banking applications in January last year.

Seven to 10 smaller banks are likely to be unable to meet the central bank's minimum capitalisation requirements, making them prime candidates for mergers. With many of these banks tailored to the needs of individual communities – Diamond Trust Bank, for example, caters exclusively to the Ismalia community – some may prefer to bow out.

The result should be a stronger sector overall. "In 10 years' time you'll still have a few bit players on the scene," says an analyst. "But the number of banks will probably have come down to 30 to 35. Those unable to cope with the competition or who refuse to merge will go to the wall."



Capital adequacy of the banking sector

	1995			1996		
	Capital & reserves Ks m	Deposit liabilities* Ks m	Capital to deposit liabilities %	Capital & reserves Ks m	Deposit liabilities* Ks m	Capital to deposit liabilities %
Banks	22,221	187,588	17.1	41,583	246,044	16.9
NBFIs	8,699	58,258	14.9	7,077	42,911	16.5
Total	40,920	245,827	16.5	48,581	288,955	16.8

Source: CBK annual report. *Includes accrued interest and foreign liabilities

PROFILE Kenya Commercial Bank

Controversy marrs sell-off

The April flotation of part of the majority state-owned Kenya Commercial Bank highlights the way in which shady management practices and patchy, belated supervision can still work to undermine an otherwise strong player on the Kenyan financial scene.

KCB officials say the 25 per cent stake being offered was oversubscribed, with close to 56m shares bid for only 28m available.

But the controversy that erupted just before the holding went on sale ensured a cash-strapped government got less from the privatisation than it deserved.

With a pedigree dating back over a century, 1m customers, assets of KS74bn ($1.2 bn), the largest network in the country, and 1997 pre-tax profits of Ks4.12bn ($69.3m), the KCB flotation, the third in a series, seemed certain to prosper.

But five weeks before the offer opened, local newspapers revealed that KCB's general manager and several other directors owed the bank more than Ks155m ($2.58m) in largely unsecured and unserviced loans. If the debts involved were small compared to the bank's asset base, their existence appeared to confirm cynical public perceptions of abuses taking place in Kenya's "political banks".

Simeon Nyachae, the finance minister, promptly sacked those concerned and named a new executive chairman. The Central Bank of Kenya warned top executives at other commercial banks who it said were in similar positions that they had three months to regularise their positions or resign.

Stockbrokers welcomed the decision at a KCB extraordinary shareholders meeting in April to reduce the government's role in the bank, passing a series of resolutions that empowered the board, as another important confidence-building measure. The government, which will be left with a 35 per cent share in the bank, can now congratulate itself on an issue which was oversubscribed both at home and abroad.

Allocation of shares has favoured Kenyan and small investors at the expense of foreign institutions, with some 80 per cent going to local investors and 20 per cent to foreigners.

But the revelations of top-level mismanagement have taken their toll. Share prices, due to weaken in any case ahead of the offer, plummeted by about 30 per cent following the newspaper reports. With the government obliged to offer the new issue at a discount to the market price, the result inevitably meant lower proceeds for the state.

Given the level of interest shown, the share price is now expected to surge. But the lesson for the government, which is looking to privatisation of its remaining parastatals to help bridge a widening budget deficit, is that abuses should be spotted and action taken well before the offer comes to market if assets are not to be sold off cheap.

Michela Wrong

COTE D'IVOIRE • by Mark O'Dwyer

Banker burn their fingers on cocoa

A highly profitable sector has been shaken up by a series of bad loans

The new IMF-World Bank programme and liberalisation of the cocoa and coffee sector are sending shock waves through the calm and highly profitable world of banking in Côte d'Ivoire.

The three-year programme backed by the Fund and the bank will include a financial sector reform project, at national and regional level, says finance minister N'Goran Niamien. IMF directors on a recent visit to Abidjan, the Ivorian capital, said they had two concerns about the local banking system: capital adequacy and banking supervision.

A recent spate of bad loans to the cocoa and coffee sector – the banks' biggest source of business – and awkward parallels with the Asian banking crisis – came to light while the Washington-based institutions were negotiating the new aid and debt relief programme, worth $3bn to Côte d'Ivoire.

The main debtor was a leading cocoa and coffee exporter, SICC, owned by a family with close links to the head of state. Moreover the government is a shareholder in the domestic bank creditors, who, according to local bankers, have at least $20m in unsecured loans to SICC. The state owns 20 per cent of the two biggest of these banks, both French controlled: SGBCI (a subsidiary of Société Générale) and BICICI (the Banque Nationale de Paris operation). The government owns 100 per cent of BIAO, the other bank with heavy exposure to SICC.

Under the watchful eye of the donors, there was no state bail-out of SICC. SGBCI and BICICI, both quoted on the local bourse, took heavy provisions against bad loans. These cut net profits at Société Générale, which has about 35 per cent of the Ivorian market, from CFA fr9bn in 1996 to CFA fr3.5bn last year.

Despite the recent problems, commercial banking remains a highly profitable business in Côte d'Ivoire. Four big commercial banks have about three quarters of the market: these are SGBCI, BICICI, SIB (a Credit Lyonnais affiliate) and the state-owned BIAO.

The second tier is made up of niche banks. These include Paribas and Citibank, which specialises in corporate business. Some smaller niche banks in Abidjan have made more than 100 per cent return on capital in recent years.

Even the big commercial banks showed pre-tax profits between 33 per cent and 50 per cent of capital in 1995 and 1996. Citics say this has made the banks complacent. The recent bad cocoa loans highlighted their weaknesses in the face of change.

Liberalisation of cocoa and coffee has reined in the power of the Caisse de Stabilisation, the state authority which once controlled all cocoa and coffee exports. This was forcing Ivorian banks to re-examine business with the sector, which accounts for 40 per cent of the country's exports. The banks pre-finance exporters so that they buy the beans up-country and get repaid from export proceeeds.

A leading banker in Abidjan says lessons are being learned. "A more corporate approach is needed," he says. "When the state was regulating the cocoa sector, the amount of stock the trader had was more important than the quality of its management. Now we have to direct credit towards companies with sound finances and are well run."

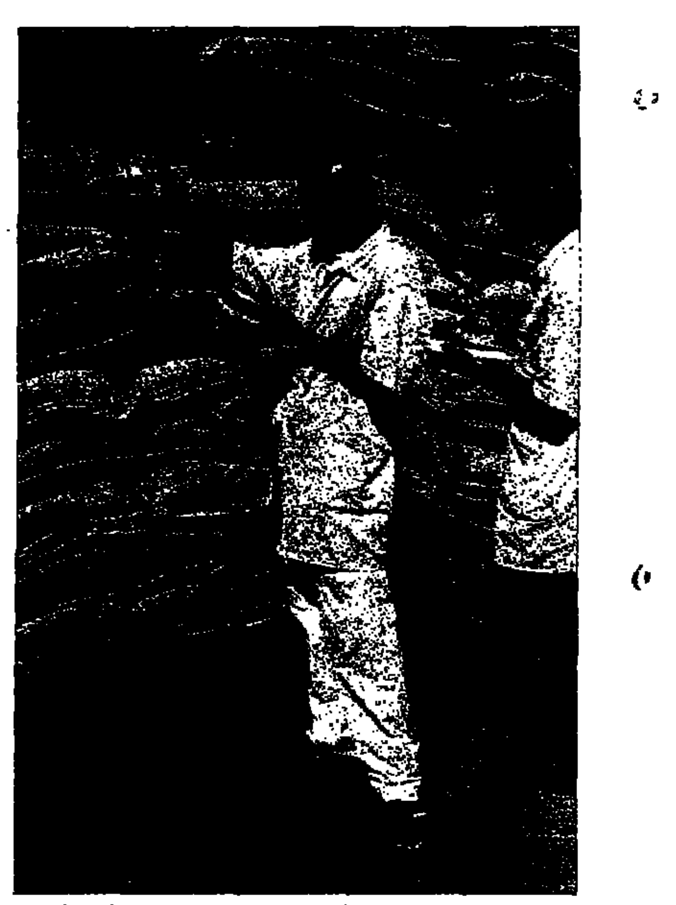
Offshore banks have also burnt their fingers on syndicated loans to Ivorian cocoa traders. Dresdner Bank was the lead manager of a large offshore loan to SICC. Bankers in Abidjan say the loan, backed also by another German and a Japanese bank and by Afreximbank, was unsecured. The offshore banks' role in the cocoa sector underlines the paradox.

"Cote d'Ivoire is probably over-banked and yet the amalgamated resources of all these domestic banks is considered inadequate to finance cocoa and coffee," says an international banker in Abidjan. "So the merchant bank arms of the Ivorian banks who think they have enough exposure to the sector act as intermediaries bringing in offshore banks to mobilise international capital. That way Ivorian cocoa becames part of the world market for risk."

Although the Washington institutions are looking at tightening banking supervision, the Commission Bancaire is considered strict. The commission, as in the French system, is separate from but subordinate to the central bank. Each bank must report its balance sheet, liquidity position and profit and loss account monthly to the commission.

The central bank in Abidjan, a national agency of the Banque Centrale des Etats de l'Afrique de l'Ouest, the Dakar-based institution covering the eight West African countries whose currency is the CFA franc.

The common currency has worked in Cote d'Ivoire's favour as it is the main economy among the eight, with Abidjan the main financial centre. However, the CFA franc's peg to the French franc may be holding back non-traditional banking. "An investment bank dealing in treasury and capital markets needs to be able to move capital in and out of the country freely. But here there are exchange controls, largely to protect the French treasury from the effects of capital flight," says an Abidjan bank director.



A dock worker checks sacks of cocoa for humidity: a spate of bad loans to the cocoa and coffee sector has come to light Sarah Murray

هكذا من الأصل

THE AFRICAN DEVELOPMENT BANK • by Mark O'Dwyer

A new lease of life

A staff shake-out and a capital increase are restoring the bank's credibility

The African Development Bank is taking vital steps to emerge from the institutional and financial crisis of the mid-1990s which cut off vital funding and even cast doubt on its survival.

In addition to extensive restructuring of senior staffing, a 35 per cent capital increase, to be approved by member states after the annual meeting, will strengthen the AfDB's finances and raise its credibility in international capital markets.

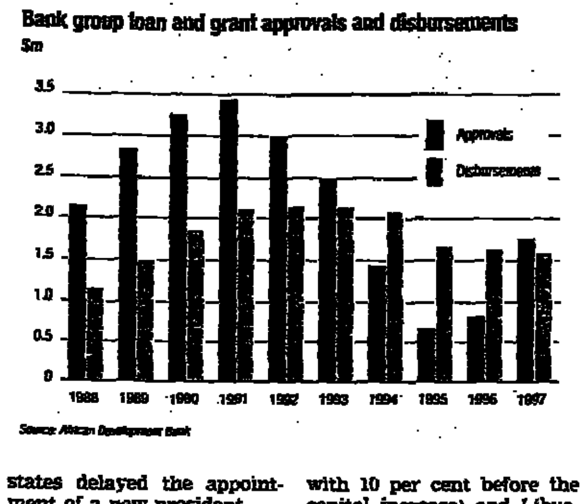
By the end of 1998 the group's management expects to have enough funds to ensure that both the AfDB – which has as its shareholders 53 African countries and 24 partners from outside the continent – and the African Development Fund, the bank's soft credit arm, remain fully operational.

The agreement raises the equity of the non-African, mainly OECD member countries from 34 to 40 per cent and gives them more voting power. The capital increase puts the AfDB almost in the same league as the other multilateral development banks in terms of debt to capital ratios, says Omar Kabbaj, AfDB president.

The percentage of total debt to usable capital will fall from 98 per cent in 1995 to 55.7 per cent after the increase. Total debt to callable capital will fall from 44.7 per cent in 1995 to 28.7 per cent. The ratio of senior debt to the callable capital of the non-African member states will fall from 70.1 per cent in 1995 to 43.9 per cent, he says.

The AfDB believes the agreement will also enhance its standing with credit rating agencies. In 1995, Standard & Poor's downgraded the AfDB's debt from AAA to AA in 1995, the only credit rating agency to do so. S&P's move reflected political doubts about the bank, as divisions among the member states delayed the appointment of a new president.

Bank group loan and grant approvals and disbursements



Source: African Development Bank

Mr Kabbaj – who was appointed in 1995 and has presided over the most extensive of the bank's financial and institutional reforms – doubts whether the capital increase will have any immediate effect on the bank's borrowing cost. "Our spreads compared to the other development banks have narrowed from 25 to 13 basis points," he says.

However, the bank is reducing its commitment fee from 1 per cent of the amount of a loan to 75 basis points, which brings it more into line with other multilateral lending banks.

The capital increase will also reinforce the bank's capital base, protecting it against possible default by some borrowers. Since arrears rose sharply in the early 1990s, the bank's bad debt situation has stabilised. Arrears in 1997 rose slightly to 579m UA (units of account) but most of this came from a small group of war-torn countries, including Democratic Republic of Congo, Angola and Liberia.

As part of the capital increase, the non-regional members will raise their shareholding from one third to 40 per cent and will in effect have a veto through a change in the board of governors' voting rules, requiring a 70 per cent majority on all major decisions.

Two regional members, Nigeria (the group's largest with 10 per cent before the capital increase) and Libya, raised last minute objections to the proposed changes to voting rules.

A compromise was hammered out at the meeting which leaves the non-regional's veto in effect but is phrased differently.

Although the bank's capital of about $24bn is sufficient to maintain existing operations, non-African members wanted the increase and structural change to take place before agreeing to replenish the ADF. Funding for the ADF, the only source of loans from the AfDB for 39 African countries too poor to qualify for non-concessional credits, is provided by the non-African members, except for a small contribution started recently by Botswana and South Africa.

Donors are to start negotiating the replenishment of the ADF this month. Mr Kabbaj says he expects it to be agreed by the end of 1998, by which time all its existing funds will have been committed.

As part of the reform process at the bank, sweeping changes to personnel have taken place. Some 70 per cent of senior management have been replaced since 1995, recruitment procedures have been tightened up and an overhaul of staff policy has recently been completed.

"Treasury and human resources are the main areas of progress," says Cheick Fall, secretary general of the AfDB. Heading the treasury at the bank is Thierry de Longuemar, recruited from Crédit Agricole and the first AfDB treasury chief to be appointed from outside the bank.

As part of a new treasury policy, the bank is giving borrowers a choice of loan products and currencies. Until October 1997 the bank just had one product, a variable rate loan and no choice of currency. Borrowers found themselves with far too high a portion of yen borrowings. The treasury department says the AfDB's clients require 50 per cent of their borrowings in dollars and 30 per cent in European currencies (mainly francs and D-Marks).

Under Mr de Longuemar, three products have been introduced based on single currencies: Libor floating rate loans, fixed rate loans and variable rate products. These are designed to match the funding needs of African countries. Old undisbursed loans are being converted to the new products.

Another innovation is the use of African currencies. The bank has tapped the Euro-rand market to satisfy growing demand for rand borrowing by the southern African bloc, SADC, since South Africa became a member of the AfDB.

The issue of bank salaries is also being addressed. A revised pay policy is attempting to bring staff pay – which according to Mr Fall is about 30 per cent below the market rate for professional staff – more closely in to line with the market.

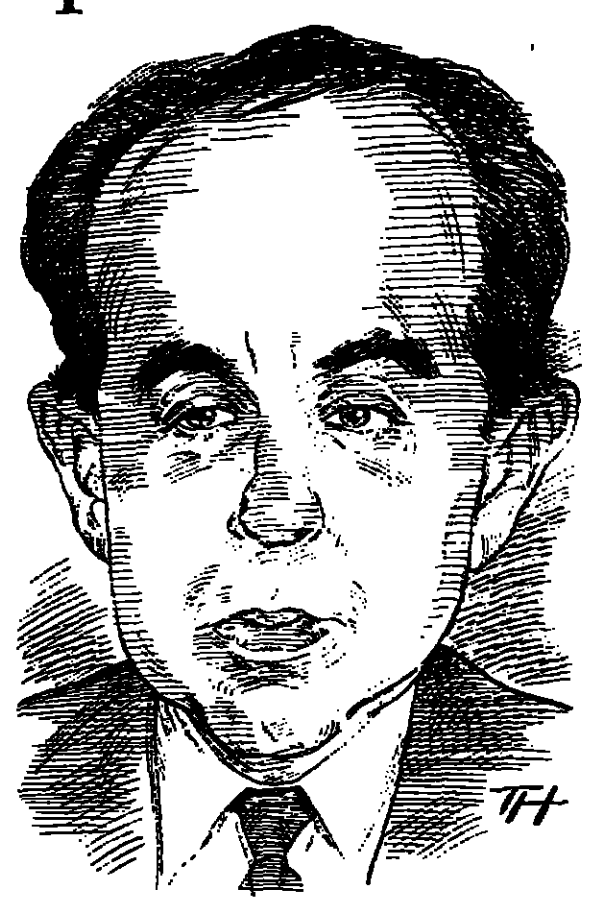
This lack of competitiveness is one reason why the development of a private sector lending department, seen as a priority by Mr Kabbaj's management, has been slow. Mr Kabbaj says the department needs experienced investment bankers, but that it has been hard to attract people with the right skills.

Those that do come to the bank, however, will find technology matching that of offices elsewhere in the world: every professional now has a desktop PC and access to the internet.

PROFILE Omar Kabbaj, president of the African Development Bank

In an optimistic mood

The bank chief discusses changes that have been carried out in recent years



The button for the 13th floor office of the Abidjan headquarters of the African Development Bank, reads simply "floor A", presumably to avoid associations with what many see as an unlucky number. But the occupant of that office – Omar Kabbaj, the bank's president – does not feel unlucky.

The reforms of the Côte d'Ivoire-based AfDB, which Mr Kabbaj accelerated when he took over as president of the bank in late 1995, have been substantially advanced and the institution is regaining the credibility it lost in recent years.

"Governance reforms are more than 90 per cent complete," says Mr Kabbaj. "We have done everything that does not require changes to the articles of the bank, for which we need the governors' assent."

Under the guiding hand of Mr Kabbaj, a Moroccan who has been a director of both the International Monetary Fund and the World Bank, the AfDB has been re-assessing the role of Africa's multilateral lender. "We have reviewed the AfDB from all angles," he says.

"We drafted a paper outlining our vision of the bank, which we have sent to the governors for their views. After the annual meeting it will be sent to the NGOs [non-government organisations] as well," says Mr Kabbaj.

The AfDB president talks of defining niches in which the bank can operate.

"But it is difficult in Africa," he admits. "We have about 20 of the poorest countries in the world in Africa, who are heavily dependent on concessional resources and are in need of help in a number of ways."

Therefore, the approach needed, he says is to have a what he calls a "broad menu" of requirements for development of member countries.

"Then within those we try to concentrate on two or three aspects. These are likely to be poverty alleviation, cross-cutting issues [donors' jargon for gender and environment] and corporate governance."

Mr Kabbaj says that the bank has also taken on a development advisory role. "We have a development unit for which we are hiring specialists in environmental and gender issues.

"When donors work together on projects the World Bank should take the lead in some aspects," he says. "But people look to the AfDB to take the lead in other areas like lending to the African private sector.

"There is also regionalisation, although we have not been able to make much progress on that yet," Mr Kabbaj concedes.

He points out that the bank has certain advantages, being located on the African continent and 90 per cent staffed by Africans who know the region well.

"We have access both to the capital markets and the private sector," he adds. "We also have lots of experience in areas such as health and education projects. But the bank wants to share risk with other donors," he says.

"There was a time when other multilaterals would not work with the AfDB on missions and AfDB staff were shunned by African officials. Now our staff are treated with more respect."

Like other multilaterals, the AfDB has started carrying out portfolio reviews, one of which took place in 1996 and another in 1997.

"We found we have a few more bad projects than the World Bank has in Africa," Mr Kabbaj says. "But one has to be careful about definitions. A problem project is not necessarily all bad.

"But we have made some improvements. We now do one supervision of the portfolio of each country per year. And we are doing a mid-term review of all projects. Agriculture is one of the problem areas. We are moving from big agriculture schemes, such as big irrigation to smaller scale projects. But the emphasis now is on quality of projects at entry and co-operation with other donors."

The AfDB has also tightened up on procurement. "We have a procurement watchdog, an internal unit that does random checks on operations, Mr Kabbaj says. "The procurement committee handles complaints from bidders on contracts. The number of complaints has gone down from 46 at one meeting to none at the most recent one."

Mr Kabbaj highlights treasury, information technology and human resources as areas of progress at the AfDB. But he says that a change of culture is still needed in the bank. "This is coming but it will take more time. There are still pockets of resistance," he says. "But there have been about 200 new recruits in the past two years and now about 50 per cent of professionals come in to work at the weekend."

Mark O'Dwyer

ZIMBABWE • by Tony Hawkins

Crisis is no surprise

The industry's woes stem from macroeconomic instability and regulatory failure

Zimbabwe's banking crisis which broke in April came as no surprise in the markets which had just been waiting for the accident to happen. Rumours that as many as three banks were in difficulties had been circulating for weeks and the only surprise was that the crisis had taken so long to surface and that only one merchant bank was involved.

Rapid growth in the number of financial institutions, including a whole swathe of "unregistered" money market dealers and investing institutions followed implementation of the 1991 Economic Structural Adjustment Programme (ESAP).

This opened up the financial sector to new entrants, while liberalising interest rates, exchange controls and the exchange rate.

The new players, initially merchant banks and discount houses, but subsequently commercial banks and building societies, increased the tempo of competition in the industry, forced the existing banks to pay substantially higher salaries to keep key staff, thereby raising costs across the board, and made credit more readily available especially to small and emerging businesses.

Official figures show that since 1990 finance and insurance has been one of the fastest-growing sectors of the economy, increasing its share of gross domestic product by about a third to more than 8 per cent of GDP.

While some of the established financial institutions have complained that the country has become "overbanked", this view is not accepted by the authorities which adopted an affirmative action approach to foster new entry by indigenous, not foreign, players.

At the end of April the authorities cancelled the licence of United Merchant Bank after a report by a firm of accountants had shown it to be "capital insolvent".

The full ramifications of UMB's closure are as yet unclear. Estimates of losses range from Z$1bn to Z$1.5bn ($55m to $80m) or about 1 per cent to 1.5 per cent of GDP. The central bank insists that there will be no "bail-out" of those who have lost money as a result of the bank's collapse, but this has been publicly contradicted by President Robert Mugabe who said last month that no-one would be "out of pocket" as a consequence.

At this stage, the main problem appears to lie with the allegedly fraudulent issue of an estimated Z$750m (US$40m) of bills on behalf of the state-owned Cold Storage Commission (CSC).

Bankers, brokers and money market dealers claim that they invested their clients' funds in CSC bills in good faith and should not therefore be held responsible, especially since the bills were issued under government guarantee.

Now that the central bank's stance has been publicly refuted by the president, the signs are that – if the funds cannot be recovered – the authorities will have to rescue anyone who lost money as a result of the bill issue, though this is unlikely to extend to those with deposits in, or loans to, UMB itself.

Bankers – including the new entrants – say the central bank must accept much of the blame for recent events. The RBZ is criticised for its failure not to move sooner to deal with the problem and for the failure of its supervision.

Finance ministry officials say they believe the problem has now been "ringfenced" but no details are being disclosed pending the report of the Governor of the Central Bank, Dr Leonard Tsumba, who has been appointed to inquire into the whole affair.

Bankers believe Dr Tsumba's full report is unlikely to be published, which could well lead to problems with donors and potential investors who want to see far greater transparency than the government is likely to allow. The danger now is that a policy designed to foster "indigenisation" of the economy at large as well as of the financial sector will have precisely the opposite effect.

In recent weeks, a flight to quality – at two levels – has developed. Deposits are shifting to the traditional banks, especially the foreign-owned institutions – Barclays, Standard Chartered and South African-based Stanbic. At the same time investors are reluctant to hold private sector paper, resulting in heavy demand for Treasury Bills.

The financial sector's problems extend well beyond the UMB affair. The steep devaluation of the Zimbabwe dollar in the final weeks of 1997 caught many companies by surprise, leaving some with offshore exposures not matched with foreign currency earnings facing large transaction-risk losses.

The 1998 slowdown in the economy, plunging stock market prices, the deepening problems of mining exporters, growing trade union militancy and, most seriously of all, the steep decline in tobacco prices, have compounded the industry's difficulties.

If tobacco prices fail to increase substantially over the next three months, many growers with large loans from the banks will not be able to repay. Current projections suggest that the tobacco prices will average no more than 165 US cents a kilogram – well below the break-even price for most growers. Were this to happen, the banks with large tobacco exposure would be forced to foreclose on some farmers while carrying others in the form of non-performing loans.

To add to the financial sector's woes the RBZ has set itself the target of halving money supply growth from more than 30 per cent last year to 16 per cent by the end of 1998. With year-on-year inflation forecast at more than 30 per cent in December – prices rose more than 20 per cent in the first four months of 1998 – the monetary target implies a credit crunch with sharply higher interest rates in the second half of the year.

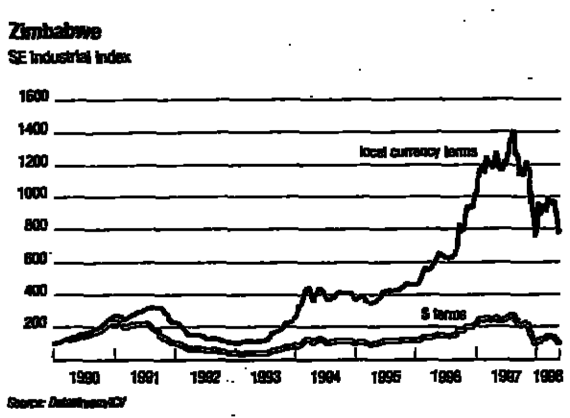
Whether such targets will be sustainable – economically, politically or socially – given labour militancy, renewed downward pressure on the Zimbabwe dollar which fell more than 12 per cent in April-May and the weakness of commodity prices and exports remains to be seen.

In May clothing industry unions accepted a 33 per cent pay offer, while postal workers downed tools in search of substantially higher wages. Analysts predict that wage awards will average 30 per cent in 1998 which will leave a huge hole in the central bank's monetary and inflation targets and the government's fiscal deficit projection.

All of which suggests that the rest of 1998 will not be easy for the banking sector which could well experience a further shake-out and restructuring as conditions become more difficult.

The authorities have promised to implement new banking legislation, which should have gone to parliament four years ago and, while this will be welcomed by the financial sector, it is no panacea.

The industry's problems have their roots in macroeconomic instability – a decade and more of unsustainable budget deficits, rapid money supply growth and high inflation – and the failure of the Reserve Bank to implement the regulations already in place.



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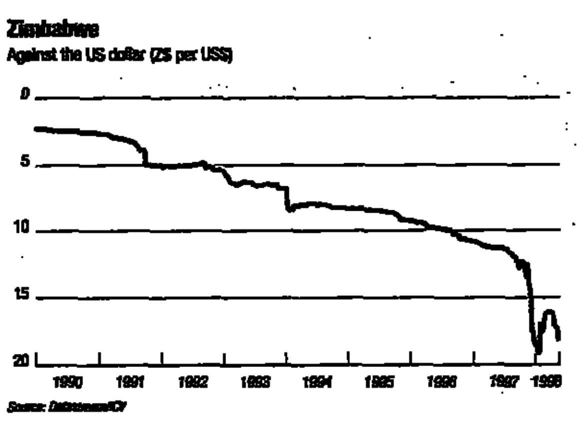

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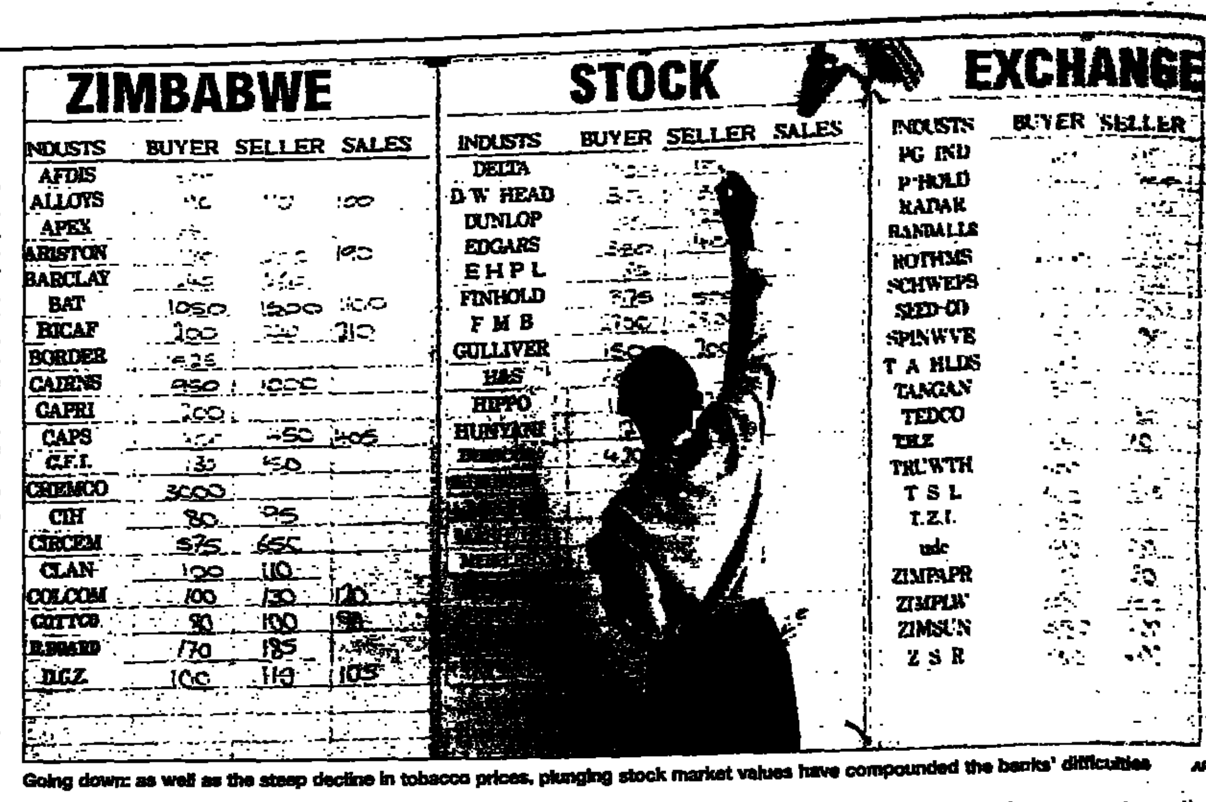

Going down: as well as the steep decline in tobacco prices, plunging stock market values have compounded the banks' difficulties AP


A young Nigerian walks past pipes carrying oil: despite the country's oil output of 2m barrels a day, debt arrears continue to climb AP

NIGERIA • by Lolade Ogunjimi

The roller-coaster ride

Weak banks fold and new technology takes hold as bankers learn to adapt

Life for a banker in Africa's most populous nation is anything but dull.

The past few months have seen no fewer than 26 banks go into liquidation, the introduction of state of the art technology in the form of smart cards and the prospect of a London listing for the United Bank of Africa, one of Nigeria's big three.

Throw in political uncertainty, a stock market at a 21-month low, a weakening currency which last month depreciated by 6 per cent against the dollar and a $35bn external debt on which arrears continue to climb despite the country's oil output of 2m barrels a day, and it all adds up to a challenging business environment.

"Doing business here requires a cool head, strong nerves, and long vision," says one Nigerian banker.

The rapid expansion of the Nigerian banking sector which got under way in the late 1980s, was always likely to end in tears.

The number of banks more than doubled from 50 in 1986 to 120 in 1992, many of them established with minimal capital and no deposit base to speak of.

By the end of 1994, the Nigerian Deposit Insurance Corporation (NDIC) estimated that N49bn of deposits were lodged with distressed banks – about 29 per cent of the total – while more than 40 per cent of loans were non performing.

The writing was on the wall, as the NDIC report for the year made clear: "Capital adequacy worsened... poor asset quality was further heightened as more debtors defaulted... excessive risk taking tendencies by the banks and the prevalence of fraud and other forms of malpractice adversely affected the financial conditions of the industry..." After a series of government warnings during the intervening years that the sector had to put its house in order, the crunch came. In January this year, the Central Bank of Nigeria named 26 distressed banks which were to be liquidated following their failure to recapitalise by a government deadline of December 31, 1997.

The collapsed banks, more than one fifth of those licensed in Nigeria, were equally divided between commercial and merchant banks. Four of them were owned by the federal government, six by state governments and 16 by private shareholders.

The 26 banks put in liquidation by CBN were collectively owing depositors N16.33bn, but depositors are only certain to get N5.993bn from NDIC, being the amount of insured liabilities, at a maximum of N50,000 per depositor.

But the shake out is not over. Besides the 26 collapsed banks, another 28 are officially classified as distressed.

They now have until December 31 to increase their minimum paid up capital to N500m, whether through rights issues, fresh injection of funds from new shareholders, or mergers. As of April 31, this year, 29 banks had met this requirement.

The Lagos rating agency, Agusto & Co, expects that by the deadline – which could well be extended – about 40 banks should have met this requirement.

But the days of easy pickings and quick and easy profits are ending as the reforms make the sector more competitive.

Although last year, the sector's gross earnings had increased from N8bn in 1990 to N70bn, it represented a contraction of 15.2 per cent in US dollar terms from $1bn to $848m.

While gross earnings have increased almost tenfold in nominal terms, real growth has been negative. And although the sector's return on average equity has reduced from its peak of 61 per cent in 1993 to 36 per cent in 1997, the current real return on equity is positive.

New technology and greater efficiency will be the key to profitability in the years to come. A consortium of 19 banks, including Citibank Nigeria and Crédit Lyonnais Nigeria, who between them represent about 70 per cent of total assets in the banking sector, have introduced an electronic payment scheme based on smart card technology.

They have formed a joint stock company, Smart Card Nigeria Plc, to manage the scheme, and the Dublin-based Card Services International, in partnership with IBM, has been awarded the $2.1m contract for the initial batch of cards.

These will be programmed to load between a minimum of N500 and possibly up to N1m, and expected to catch on rapidly in a country where the highest denomination note is only worth about 60 US cents.

Test run in Lagos in June, the full launch of the scheme is scheduled for December this year.

Meanwhile the three biggest banks – Union Bank, the United Bank for Africa, and First Bank – are all pursuing restructuring programmes, with UBA leading the way, and aiming for a listing on the London and New York stock exchanges.

So far, no Nigerian company is listed outside the West African country's own exchange.

"It is just the beginning of the process," warned a UBA official. "UBA is still awaiting clarification from abroad," said a spokesman for the Lagos stock exchange, adding that necessary documents had not been signed to allow the bank to secure a listing overseas.

UBA, one of Nigeria's biggest three, has 60 per cent Nigerian ownership and 40 per cent foreign stake with Banque Nationale de Paris Plc (UK) holding at least 25 per cent.

Other foreign owners are Paris based Banque Nationale de Paris Intercontinentale, Bankers International Corp. of the US, Banca Nazionale del Lavoro and Monte dei Paschi di Siena both of Italy.

The author is an analyst at Agusto & Co, the Lagos rating agency